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The Economist

APRIL 14TH–20TH 2007 www.economist.com

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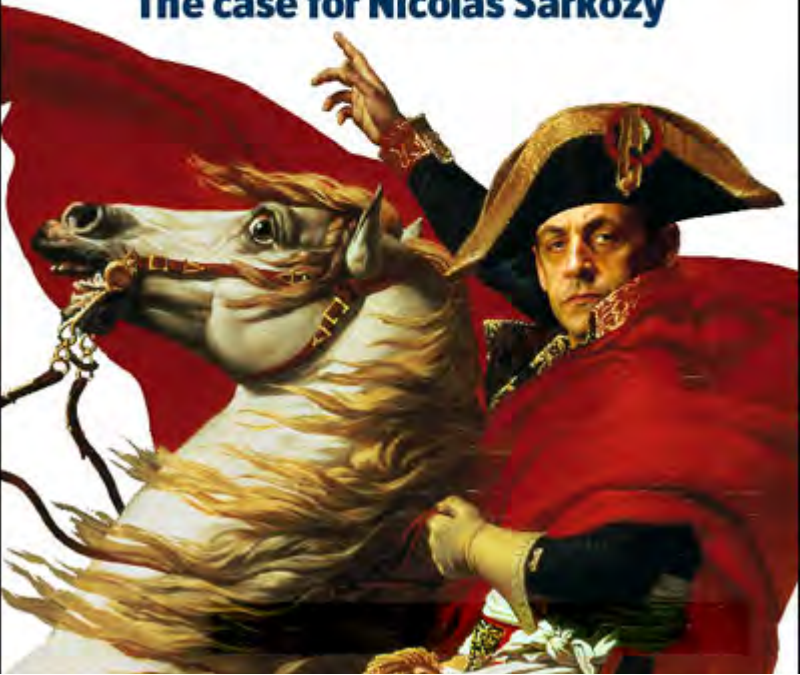

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Politics this week

Apr 12th 2007
From The Economist print edition

Sectarian bombings continued to ravage **Iraq**. A woman suicide-bomber killed at least 17 police recruits north-east of Baghdad. One of the capital's biggest bridges over the Tigris river was blown up. And a bomb in a restaurant in Iraq's parliament building killed at least two MPs and wounded dozens of people.

Though Iraq's firebrand Shia cleric, **Muqtada al-Sadr**, has not been seen for months, he orchestrated a huge demonstration in the holy city of Najaf to call for American troops to leave. His supporters vilified the prime minister, Nuri al-Maliki, for not spelling out a timetable for them to go. See article

Two suicide-bombings, one against the prime minister's office in Algiers, killed at least 30 people in **Algeria's** capital. A group calling itself al-Qaeda's arm in the Maghreb claimed responsibility. See article

EPA

Raising fears that the same group may hit targets across the region, **Morocco** was involved in a separate spate of incidents: two suicide-bombers blew themselves up when police raided a house in Casablanca, the country's biggest city. The police say they have been searching for a dozen would-be suicide-bombers for a month.

Iran's president, Mahmoud Ahmadinejad, said Iran had stepped up uranium enrichment in defiance of a second UN Security Council resolution ordering it to stop.

Chad admitted that its troops had crossed the border with Sudan into the Darfur region and fought with Sudanese soldiers. It is the first time that troops from the two countries have clashed directly; Chad has accused Sudan of supporting rebels who want to topple its government and operate out of Darfur.

China urged **Sudan** in unusually strong terms to accept UN peacekeepers in Darfur. Sudan's government, hitherto with China's support, had been resisting the replacement of a weak African Union force by a 20,000-strong UN one.

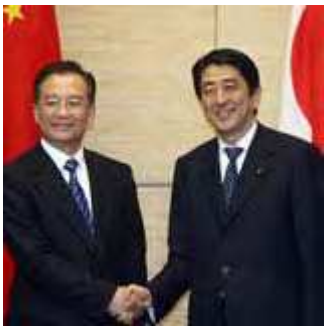
An **Ethiopian** judge quashed charges of genocide and treason against 111 people arrested for protesting against the results of an election in 2005. But more than 80 remain in prison on charges of trying to overthrow the government. See article

Foul play

Police in **Bangladesh** filed murder charges against Sheikh Hasina Wajed, leader of the Awami League, one of the two main political parties. There has been speculation that the interim administration running the country under an army-backed state of emergency since January would like both Sheikh Hasina and her rival, Khaleda Zia of the Bangladesh Nationalist Party, to quit politics. See article

In a visit trailed by both sides as a landmark in **Sino-Japanese relations**, China's prime minister, Wen Jiabao, arrived in Tokyo and made a speech in Japan's parliament, urging the country to face up to its actions in the second world war.

Reuters



In **Nepal**, the United Nations began overseeing the storage of weapons used by the army. Under a peace agreement with Maoist rebels reached last year the army is supposed to lock up the same number of weapons as the rebels.

The first presidential elections in **Timor-Leste** since independence in 2002 passed peacefully but inconclusively. Three candidates each won more than

20% of the vote, including José Ramos-Horta, the prime minister. Mr Ramos-Horta will now compete in a run-off next month with the candidate of Fretilin, the ruling political party. See article

An estimated 10,000 protesters occupied the main square of Bishkek, capital of **Kyrgyzstan**, and threatened to stay until the president, Kurmanbek Bakiev, resigns. See article

Shared interests

Leaders of seven **Central American** countries met Mexico's Felipe Calderón and Colombia's Álvaro Uribe and agreed to co-operate on improving infrastructure and fighting drugs. See article

Teachers in **Argentina** staged a one-day strike in protest at the death of a colleague in a demonstration and at the failure of many provincial governments to implement a recent 24% wage rise decreed by the government of Néstor Kirchner. The provinces say they lack the money.

Media blitz

France's presidential election campaign was officially launched. There are 12 candidates, each of whom must have equal airtime until the first round on April 22nd. The centre-right candidate, Nicolas Sarkozy, remains in the lead in most opinion polls. See article

A **Serbian** war-crimes court jailed four Serb paramilitaries who were filmed shooting six Bosnian Muslims in July 1995. It was the first trial inside Serbia that had any bearing on the Srebrenica massacres, in which almost 8,000 male Muslims were killed.

The political stand-off continued in **Ukraine**, where the prime minister, Viktor Yanukovich, has rejected the call by the president, Viktor Yushchenko, for a new parliamentary election in May. Both sides were said to be seeking a compromise. See article

A huge row broke out over the decision by **Britain's** Royal Navy to allow two of the 15 sailors and marines held captive in Iran to sell their stories to the media. The defence ministry reversed the decision; the prime minister, Tony Blair, said he was not involved but declared that in hindsight it had been a bad idea to let the servicemen sell their tales. See article

A misspoken man

John McCain tried to get his presidential campaign back on track by making a big speech on Iraq and reiterating his belief that America would prevail. Shortly before, the senator from Arizona had been criticised for claiming the security situation in Iraq had improved after he toured a market in Baghdad on April 1st. Mr McCain was protected on his stroll by 100 troops, five military helicopters and American rooftop snipers. See article

Robert Gates, the defence secretary, acknowledged that **American forces** are stretched when he extended the deployments of army units serving in Iraq and Afghanistan by three months, to 15 months.

AP

The Senate passed a contentious **stem-cell** research bill (by 63-34) that George Bush vetoed last year and says he will veto again.

New York added its name to the growing list of states that have brought forward their presidential primaries to February 5th 2008; others are contemplating the same.

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Business this week

Apr 12th 2007
From The Economist print edition

Citigroup unveiled a much-trailed restructuring plan saying it would shed 17,000 jobs (5% of its workforce) in an effort to cut costs. The world's biggest financial institution is responding to pressure from shareholders to rein in its operating expenses, which last year grew at twice the rate of its revenues. See article

America filed two separate complaints against **China** at the **World Trade Organisation**, one on enforcing copyright laws, the other on opening markets to American media. The decision to ratchet up the pressure on trade came eleven days after America imposed tariffs on certain types of Chinese paper and when American politicians are agitating for action against what they see as Chinese protectionism. China said the most recent action would "seriously undermine...co-operative relations" on trade.

Once more unto the breach

DaimlerChrysler's search for a buyer for its North American car division took a twist when **Kirk Kerkorian** offered $4.5 billion. The billionaire investor fought a protracted battle to win control of **Chrysler** in the 1990s but was bested by Daimler-Benz. He then attempted to sue the newly merged DaimlerChrysler.

PPR, a luxury-goods group that includes Gucci in its portfolio, agreed to buy **Puma**, a German sports-equipment and fashion company, for *euro*5.3 billion ($7.1 billion). Puma's share price rose amid speculation that Nike might step in with an offer. See article

Guido Rossi resigned as chairman of **Telecom Italia** following a dispute with **Pirelli**, a conglomerate that holds a controlling stake in Europe's fifth-biggest telecoms firm. Meanwhile, **AT&T** and **América Móvil**, a Mexican mobile operator, tried to shore up support for their joint bid for most of Pirelli's stake, which is opposed by some Italian politicians. Analysts pondered whether a counterbid would emerge from Italian investors.

Stuck at the checkout

A consortium of three private-equity firms ended its putative bid for **J. Sainsbury** after failing to win the support of the British supermarket chain's board for an offer worth some £10 billion ($20 billion). Kohlberg Kravis Roberts, a fourth member of the consortium, had pulled out earlier to focus on its effort to buy Alliance Boots, a British drugs retailer.

Britain's **Imperial Tobacco** raised its offer for **Altadis** to *euro*12 billion ($16 billion), which the Franco-Spanish cigarette-maker promptly rejected. Imperial wants to buy Altadis to save costs and expand in markets where smoking is increasing. Altadis has a strong presence in eastern Europe and Morocco.

Nestlé offered $5.5 billion to Novartis, a Swiss drugs company, for **Gerber**, its baby-food business. The world's biggest food company has been steadily expanding its range of nutritional brands and the deal provides it with most of the baby-food market in the United States.

The board of **Rinker**, an Australian building-materials company, accepted a sweetened $14 billion takeover offer from **Cemex**, a Mexican cement-maker. Cemex first approached Rinker last October.

Royal Dutch Shell proposed a settlement with non-American investors on the collapse of its share price in early 2004 after the company's admission that it had overstated its energy reserves by more than 20%. Shell offered to pay $352.6m to settle claims "without admitting any wrongdoing" and said it wanted to make a similar deal with investors in the United States in proportion to their holdings.

ConocoPhillips became the first big American oil company to call on the government to set targets to reduce **greenhouse gases** when it joined the United States Climate Action Partnership, a business forum

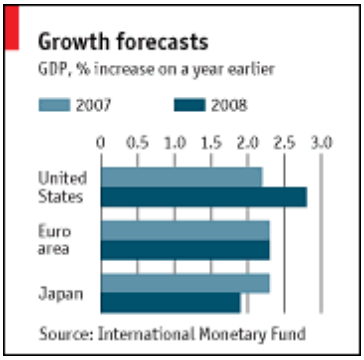
pressing for such legislation (BP's American arm is also a member). The Democrats have vowed to pass a bill this year that reduces America's emissions.

It emerged that Ray Irani received a compensation package worth $416m in 2006 as chairman and chief executive of **Occidental Petroleum**, one of the biggest annual payouts ever netted by an executive. Around two-thirds of the figure is accounted for by Mr Irani cashing in stock options.

Apple said it had chalked up 100m sales of the **iPod** music player since its launch in November 2001. Apple's online music store, iTunes, has sold more than 2.5 billion songs.

Just wait until next year

The IMF released its twice-yearly **World Economic Outlook** and slashed its forecast of America's GDP growth rate in 2007 to 2.2% from the 2.9% it predicted last September. However, the fund said it expected the “cooling” of the American economy would have a “limited impact” on the rest of the world. See article



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KAL's cartoon

Apr 12th 2007
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Kevin Kallaugher

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The French presidential election

France's chance

Apr 12th 2007
From The Economist print edition

After a quarter-century of drift Nicolas Sarkozy offers the best hope of reform

Bridgeman/Rex

NO FRENCH presidential election in 50 years has looked as unpredictable as this year's, the first round of which takes place on April 22nd. This is so even though the leader in every opinion poll so far has been Nicolas Sarkozy, the candidate of the ruling centre-right UMP party. His support may be overestimated, just as that of the far-right Jean-Marie Le Pen may be underestimated. The rise of the centrist François Bayrou, who at one point almost overtook the Socialist Ségolène Royal, has muddied the electoral arithmetic. And with only ten days to go, more than two in five voters are undecided.

This election matters. France is the euro zone's second-biggest member and home to ten of Europe's 50 biggest companies. But it is deeply troubled. It has the slowest-growing large economy in Europe, a state that soaks up half of GDP, the fastest-rising public debt in western Europe over the past ten years and, above all, entrenched high unemployment. Over the past 25 years French GDP per person has declined from seventh-highest in the world to 17th. The smouldering mood of the suburbs (*banlieues*), home to many jobless youths from ethnic minorities, blazed into riots in 2005 and lay behind new trouble that flared recently at a Paris railway station. The disenchantment of voters is reflected not only in opinion polls but also in their rejection of the European Union constitution in 2005. Tellingly, they have not re-elected an incumbent government for a quarter-century.

The most urgent cure for all these ills is to get the economy growing faster. That requires radical liberalisation of labour and product markets, more competition and less protection, lower taxes and cuts in public spending, plus a shake-up of the coddled public services. None of these things was seriously tackled in the past 26 years, under the presidencies of François Mitterrand, from the left, and Jacques Chirac, from the right. This was a time when other European countries, such as Britain, Spain, the Netherlands, Ireland and the Nordics, transformed themselves for the better, and still largely retained their cherished social models and welfare systems. Here lies the biggest challenge for the next French president.

Worst, worse, bad

How do the candidates measure up? Only three of the 12 are serious runners (see article). A fourth who may shape the outcome is Mr Le Pen, the veteran leader of the racist National Front, who shamed France by edging past the Socialist candidate into the run-off against Mr Chirac in 2002. Mr Le Pen's poll numbers are better now than they were at the equivalent stage then. It is vital for France and its image that Mr Le Pen be kept out of the second round this time.

Ms Royal would be an asset in the second round, turning it into a satisfyingly direct left-right contest. She has other attractions: the first woman to be a serious contender, the boldness to push past the elephants in her party to win the nomination, a willingness to break with Socialist taboos by praising Britain's Tony Blair and criticising the French state's imposition of a maximum 35-hour working week. Unfortunately her policies are woolly even by modern standards. And in economics, she stands squarely behind all the old left-wing shibboleths: state intervention, rigid labour protection and high taxes.

On the face of it, the centrist Mr Bayrou is more promising. His pledge to curb the public debt is more credible than Ms Royal's and even Mr Sarkozy's. But he has failed to promote a free-market agenda—he is distressingly fond of farm subsidies and state intervention. Nor is it clear how he would form a government: his centrist party is tiny, and his vague musings of drawing in like-minded leaders from left and right smack of the lowest common denominator.

Faute de mieux

Which leaves Mr Sarkozy as the best of the bunch. Unlike the others, and despite his long service as a minister under Mr Chirac, he makes no bones of admitting that France needs radical change. He is an outsider, born to an aristocratic Hungarian émigré father; he openly admires America; he is enthusiastic about the economic renaissance of Britain. He plans an early legislative blitz to take on hitherto untouchable issues such as labour-market liberalisation, cutting corporate and income taxes and trimming public-sector pensions.

But there are two doubts about Mr Sarkozy. As he showed in his brief stint as finance minister, he has most of the traditional French politician's meddlesome economic instincts, favouring a strong industrial policy, protected national champions and even interfering in supermarket prices. Recently he has taken to heaping blame on the European Central Bank for France's self-inflicted failings.

Such economic populism may merely be a ploy to win over an electorate that has long been averse to the market. But in Mr Sarkozy it is yoked to a second unattractive streak: a form of nativism, reflected in his harsh comments about immigrants and national identity. His supporters say he must tack right to lure voters from Mr Le Pen. But he is now so unpopular in the *banlieues* that—unlike Mr Le Pen—he has barely set foot in them during the campaign. As interior minister, he took great interest in how to improve the lives of French Muslims, but he has dropped all such talk as a candidate.

This may also explain the biggest defect in Mr Sarkozy's foreign policy: his fierce hostility to letting Turkey join the EU. Ms Royal has bravely supported the principle of Turkish membership. But this is unlikely to be put to the test for at least a decade, and on other EU issues, such as the future of the constitution, Mr Sarkozy has a more sensible, pragmatic approach than either of his main rivals. He is also the most likely candidate to repair France's tattered relations with America.

On the evidence of his career and his campaign, Mr Sarkozy is less a principled liberal than a brutal pragmatist. Yet he is the only candidate brave enough to advocate the “rupture” with its past that France needs after so many gloomy years. It has been said that France advances by revolution from time to time but seldom, if ever, manages to reform. Mr Sarkozy offers at least a chance of proving this aphorism wrong.

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Economic rankings

Come in number one, your time is up

Apr 12th 2007
From The Economist print edition

Expect gloom aplenty about America's economic standing. Just don't try to slow down its rivals

David Simonds

"WE ARE the champions!" soccer fans chant when their team wins. Likewise, Americans are proud of their country's number-one position in the world economy. Yet, slowly but surely, team America is being overtaken in all sorts of economic rankings, both meaningful and meaningless.

America used to be the world's biggest exporter. First it was pushed aside by Germany and now it has been outclassed by China, where merchandise exports exceeded America's in the second half of last year. China also produced more cars than the United States for the first time last year. And Toyota is widely tipped to overtake General Motors this year as the world's biggest car company.

In global finance, too, America and the dollar are being shoved off their pedestal. The dollar is still preferred by central banks as a reserve currency, but it is no longer the favourite form of cash for households and firms. There are now more euro notes and coins in circulation than there are dollars. In the international bond market, the euro has displaced the dollar as the main currency. And, according to the *Financial Times*, Wall Street's stockmarket capitalisation has now been eclipsed by Europe (admittedly taking a rather wide definition of Europe, which includes Russia). The world's biggest company is still American—at least according to *Fortune*, which put Exxon Mobil in pole position in 2006. In fact, Saudi Aramco, though not a listed company, boasts bigger revenues.

Europe's overtaking of America in some rankings is mainly due to the weaker dollar, which could be reversed. The more serious challenge comes from China, which has been growing three times faster. Goldman Sachs expects China's GDP (at market exchange rates) to top America's by 2027. On a purchasing-power parity basis, China is likely to become number one within just four years.

Of course, America still tops many league tables by a wide margin. For example, it is the world's biggest debtor nation; it guzzles the most energy; and it has the biggest prison population. But perhaps these are not things to boast about. And, yes, economic rankings are not the only sort; but that may not always be a comfort for competitive-minded Americans. For instance, if the trend of the past three Olympics continues, China will win more gold medals than America in Beijing.

A winner in second place

There will be plenty of hand-wringing in the years ahead. But does being the biggest economy matter? It helps to ensure military superiority; it gives a country more say in fixing international rules; and as the

issuer of the main reserve currency, America can borrow more cheaply. But being number one cannot be an end in itself. The goal of policy should be to maximise a country's absolute rate of growth, not its relative rate.

Losing top place in the economic league is different from being beaten in sport, where for every winner there is a loser. Economic competition is not a zero-sum game. China's economy will overtake America's not because the United States is in terminal decline, but because China is catching up. And faster growth in China and other emerging economies will benefit America's economy, not harm it. If an obsession with remaining number one foolishly caused America to adopt protectionist policies, that would reduce America's growth as much as China's. It is better to be number two in a fast-growing world than number one in a stagnant one.

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Pakistan's tribal areas

A safe haven for terrorists

Apr 12th 2007
From The Economist print edition

For its own sake as well as the world's, Pakistan must tackle the lawlessness in its tribal areas

LAST year Tony Blair tried to boost the morale of British soldiers in Afghanistan by telling them that “here in this extraordinary desert is where the future of world security in the early 21st century is going to be played out.” He may have exaggerated but he had a point. The battle in Afghanistan with a resurgent Taliban, the Islamist puritans who, when in power, gave refuge to al-Qaeda, is indeed crucial to the “war on terror”. But the Taliban and al-Qaeda can never be defeated in Afghanistan alone because they have “strategic depth”—places to lick their wounds and train to fight another day. These places are in Pakistan, or rather, in places that ought to be in Pakistan but are in fact in a twilight zone of semi-autonomous anarchy, the Federally Administered Tribal Areas (FATA).

More than 3m people live in this rugged region, where the ethnic-Pushtun-dominated west of Pakistan blurs into the Pushtun-dominated east of Afghanistan along a 600km (375-mile) border. Recent bloodshed in one part—South Waziristan—has been trumpeted by the Pakistani government as a sign that it is beginning to win the fight there. It claims that more than 250 foreign militants, almost all Uzbeks, have been killed by resentful locals fed up with violence and religious extremism. Celebration, however, is premature. What the violence in South Waziristan really highlights is the failure of Pakistani strategy in the FATA as a whole. The fact is that extremists have taken hold in the tribal areas, and this poses a grave threat not only to Afghanistan but also to Pakistan itself—a nation of some 160m people that is still, despite everything, a bastion of moderate Islam. Unless the problem in the tribal areas is tackled, the war in Afghanistan will never end; and it will continue to infect the rest of Pakistan.

In September 2001, given no option by a vengeful America, Pakistan's president, General Pervez Musharraf, ostensibly ditched his country's friendship with the Taliban, the ally his country's intelligence service had nurtured over many years. As part of this about-turn he sent some 80,000 troops into the FATA to take on the militants. More than 700 have died in the effort, lending force to General Musharraf's anger at criticism that Pakistan is not doing enough to fight terrorism. But the army's strong-arm tactics angered and radicalised the local population. Civil administration, following an anachronistic colonial model of rule by a blend of tribal custom and a cruel and arbitrary system of “political agents” from Pakistan, was always weak. Now, in places, it has collapsed altogether.

The land that government forgot

The government has accordingly changed tack, restraining the army and seeking deals with local tribal leaders or militants, under which they will refrain from attacks on Pakistan and, in theory, prevent cross-border attacks into Afghanistan. But this, too, appears to have failed: Taliban raids into Afghanistan have increased sharply. Pakistan's claim that the recent bloodshed in South Waziristan shows tribal fighters turning on foreign Afghan-bound jihadists is at best a distortion. The reasons for the violence are murky (see article). But the local fighters are themselves Taliban affiliates.

If sending the army into the tribal areas has failed, and if goading one bunch of Islamists into slaughtering another is hardly a long-term solution, what should Pakistan do? First, it needs to own up to the real problem. Swathes of the tribal areas are largely ungoverned, constituting less a failed state than a place where the state, from British colonial days to the present, has hardly even tried. Second, try now. In the long run, hard though it will be, only incorporation of the tribal areas into Pakistan proper offers a chance for moderation to prevail. As it happens, a blueprint for achieving this was prepared last year by Pushtun notables after extensive consultation with tribal councils. It found that people wanted normal laws, political freedoms and, as the poorest part of the country, some of the benefits of development and

modernity.

That this blueprint is gathering dust suggests the scale of the problems facing General Musharraf in the FATA. His difficulties are compounded because, like military regimes throughout Pakistan's history, he finds Islamist extremists easier to deal with than secular opposition parties. There are also suspicions that some elements in Pakistan still hope for a friendly regime in Kabul, and still think Pakistan's best Afghan friends remain the Taliban. Until General Musharraf changes his approach in the tribal areas, those suspicions will linger and his claims to be a whole-hearted ally in the struggle against terrorism should be treated with scepticism.

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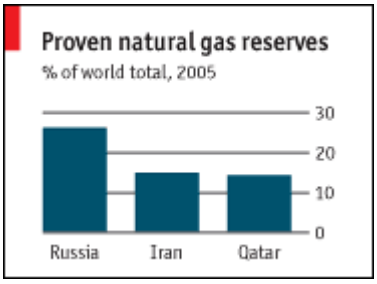
Gas cartels

A snag in the pipeline

Apr 12th 2007
From The Economist print edition

Big exporters cannot corner the global market for natural gas because, alas, there isn't one



“IN THE long run we are moving towards a gas OPEC,” said Chakib Khelil, Algeria's energy minister, at a recent meeting of big gas producers in the gassy Arabian statelet of Qatar. It is a frightening notion. After all, the world's supply of gas is concentrated in even fewer hands than its oil. Qatar, Russia and Iran between them control almost 60% of the stuff. Qatar aside, they are not among the West's most reliable allies.

But a “gas shock” akin to the oil shocks of the 1970s is an unlikely prospect. For one thing, the mooted cartel would take a long time to create. At the moment, its prospective members are contenting themselves with a vague, if slightly unnerving, “study of prices”. Even if an Organisation of Gas Exporting Countries got off the ground, there would be several ways to generate electricity and heat homes; so if gas becomes too expensive, consumers can switch to alternatives. (Petrol, by contrast, is the only thing most cars can run on, so demand for oil is relatively inelastic in the short term.)

In any case, most gas producers already benefit from a cartel—by linking gas prices with the OPEC-influenced price of oil. This curious arrangement is an indication of the imperfections of the international trade in gas. Most of it is sold not on the open market, but through long-term contracts between a single producer and a single buyer. There is little competition and almost no transparency in prices. Some 87% of the gas exported by the putative members of OGEC is sold in this way, according to Wood Mackenzie, a consultancy.

In part, this set-up reflects the enormous expense of the infrastructure needed to transport gas, whether through pipelines or by ship in the form of liquefied natural gas (LNG). Few firms are willing to invest the necessary billions without a guaranteed customer. But long-term contracts also shield both buyer and seller from competition, and so breed inefficiency.

In other words, there is no global gas market for a future OGEC to corner. Indeed, the lack of an open, liquid market is more of a problem than attempted manipulation by a budding cartel. Some cynics even argue that big gas producers have raised the spectre of an OGEC to distract from the real failings of the gas trade and to deter any efforts to correct them.

Europe over a flame

Europe, in particular, is in a tight spot. Many of its biggest gas distributors, near monopolists in their home markets, prize reliability over low prices. They tend to control both the transport of gas, through pipelines and LNG terminals, and its ultimate sale. They have no desire to undermine their business by granting rivals access to their distribution networks or building interconnectors with neighbouring countries.

Meanwhile, Europe is becoming ever more reliant on a single supplier: the Russian state, in the form of Gazprom, the gas giant in which it owns a controlling stake. The European Union reckons that half of all the gas it imports comes from Russia. Gazprom has bound Europe in a web of pipelines under its own control and is seeking to scupper rival projects. It would be foolish to assume that Russia will never use its leverage over western Europe for political ends—even if Russia needs its earnings from selling gas. Moreover, Gazprom has been underinvesting in the exploration and production of gas, so it might not have enough to send to European markets in years to come (see pages 37-39).

No wonder energy security now helps shape foreign-policy decisions in many European capitals. The

trouble is that Europeans have failed to work together to reduce their dependency on Russia. Some have resorted to lecturing the Kremlin about how to run Russia's energy industry. But that is futile: naturally, Russia wants to maintain and expand its pre-eminence in the European market. Another answer is for Europe to advance pipeline schemes that bypass Russia. But that has chiefly led to bickering and recrimination.

The best response would be for Europe to liberalise its own gas supplies. This plan lies entirely within Europe's power and it would break the monopolies controlled by the national utilities, which are rushing to sign or extend long-term contracts with Gazprom in the hope of securing preferential terms. Big gas reserves will always give countries like Russia clout. But importing countries would face less risk if they fostered an integrated market. The way to see off a single overmighty supplier is to diversify, with investment in a range of suppliers, lots of transactions and pipelines “unbundled” from the big utilities. Fear of OGEC notwithstanding, that is the best defence against domination.

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Brazil

Should try harder

Apr 12th 2007
From The Economist print edition

Lula's disappointing lack of ambition

Reuters

Get article background

A FEW days before the Easter holiday, an upstart Brazilian discount airline called Gol said it would buy the relics of Varig, the country's once-emblematic national carrier destroyed by mismanagement. If that seemed like an example of the new-found entrepreneurial vitality of Brazil Inc, it was marred when passengers across the country found themselves grounded for several days by an air-traffic controllers' strike, the latest instalment of a dispute that the government has allowed to fester for six months. Once again, it seemed, Brazil's lumbering state is holding the country back.

Brazil has so often flattered to deceive. In 2003 economists at Goldman Sachs bracketed it with Russia, India and China in a new acronym: the BRICs, they said, would dominate the world economy by 2050 and provide much of its growth in the intervening years. Brazil's sluggish economy has led many to question its right to membership of that club.

In fact, as our survey this week makes clear, Brazil is doing rather better than many assume. Signs of progress abound. Inflation is under control. Economic growth is edging up and should reach 4.5% this year. Exports have doubled since 2003. Interest rates, though still high, are falling steadily. The public debt is more manageable. The stark inequalities for which the country has long been infamous are being reduced: income distribution is less unequal than at any time in the past 25 years and poverty has fallen by a third since the early 1990s. Recent statistical recalculations suggest that the poor may have done even better than thought. Brazil is a rising power in the world, too. It is a leader in alternative fuels and, because of its rainforest, a crucial actor against climate change.

These improvements owe something to the social policies of President Luiz Inácio Lula da Silva, but they are also a result of the price stability won by his predecessor, Fernando Henrique Cardoso. Over the past dozen years Brazil has moved steadily from political instability, hyperinflation and financial chaos to democratic normality. The election in 2002 of Lula, a former metalworker who leads the left-of-centre Workers' Party, was itself a sign of that transition; so was his subsequent decision to maintain macroeconomic discipline.

Sadly, Brazil could be doing so much better. The state continues to take too much in tax while too much public money is spent on the wrong things. For example, the government spends 11% of GDP on absurdly generous pension systems in a still youthful country.

Business is snagged by a skein of regulation, including labour laws copied from those of Mussolini. Roads, ports and airports are clogged and there are fears of electricity shortages, all because the state neither invests enough nor encourages the private sector to lend a hand. More young Brazilians are at school than ever before but most learn little. No wonder that investment is only a paltry 17% of GDP.

Time for Lula to show leadership

Yet Lula has begun his second term in slow motion. A “growth acceleration package” offers only modest tax breaks and a small cut in the rate of growth of public spending (and a small rise in public investment). Instead of reforming the pension system, Lula has shunted the question into a “forum” whose recommendations are likely to be cautious. He seems to have lost any enthusiasm for loosening the labour laws.

What makes this so disappointing is that Lula is so well placed. He is popular enough to have won a second term despite his party's involvement in a votes-for-cash scandal in Congress. He has gone on to form a broader coalition, which should rule out a repetition of such scandals. And whereas Mr Cardoso had to grapple repeatedly with the impact of turmoil in global financial markets, world conditions have smiled on Lula's Brazil. The export boom owes much to Chinese demand for Brazil's foodstuffs and minerals. Abundant liquidity in the world economy has made debt easier to manage.

Unfortunately, sunnier conditions have also dulled the appetite for unpopular reforms. That is where leadership comes in. Lula is a better president than his domestic critics admit. Were he to go on to loosen some of Brazil's self-imposed shackles he could yet go into history as a reformer.

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On Iran, Congress and Iraq, the European Union, Austria, Northern Ireland, Neanderthals

Apr 12th 2007
From The Economist print edition

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Not very diplomatic

SIR – Iran's seizure of British navy personnel was possibly illegal, probably counterproductive and definitely misguided ("Hostages to fortune", March 31st). But Iran's actions must be seen within the wider context of the frustration it feels at not being heard. Its protests at the seizure and detention of five Iranians in Iraq by the Americans have been ignored. Its complaint that India was coerced to secure Iran's referral to the UN Security Council has gone largely unreported and its plea that it has not breached its obligations under the Nuclear Non-Proliferation Treaty is dismissed. Moreover, America has positioned two aircraft carriers in the Persian Gulf. By seizing the sailors Iran hoped to have the ear of the world, but the clamour over its illegitimate actions will now drown out any legitimate grievances that Iran has.

Stefan Simanowitz
London

Taxpayers' money

SIR – Your leader on the "gathering struggle" between George Bush and Congress over the conditions attached to a military spending bill for Iraq was disappointing ("Besieged", March 31st). Speaking as someone with decades of budget battle experience in the private sector, are you actually suggesting that attaching conditions to funding is somehow inappropriate meddling? Put another way, would you describe as rational economic behaviour a group of investors (taxpayers) putting another $120 billion into an enterprise that had burned at least $400 billion without a business plan and with no targets and deadlines, simply because new management (General David Petraeus) had been brought in?

James Hutchin
Clinical professor
Fox School of Business
Temple University
Philadelphia

SIR – America's objectives in Iraq, ie, destroying Saddam Hussein's government and ensuring there were no WMD, were achieved with fearsome ease. So how can you characterise America's troops as "defeated" if they return home? Yes, they couldn't stop the suicidal zealots nor control every political variable, but these were impossible goals. The war against Saddam is over; America won. It has no further national interest to serve or achievable objective to pursue in Iraq. That is why the president should bring the victorious troops home now.

Benjamin Swift
Toney, Alabama

Democracy in Europe

SIR – Though sombre in mood, your special report on the European Union acknowledged the progress that the integration process has made and the paradoxical dilemma inherent in the "soft power" of prospective membership (March 17th). However, I differ with your analysis of the parliament. All would admit it has a problem in connecting with the European citizen, but that is only one side of the coin. There is also the question of holding the executive (the European Commission) to account. Here, the

parliament does a remarkable job and in a way that no European senate composed of national parliamentarians ever could.

I also take issue with your argument that the Economic and Social Committee (ESC) and, more generally, the advisory function exercised by it and its sister body, the Committee of the Regions, are pointless. The ESC, in particular, gives groups representing employers, employees, consumers, farmers and others their only direct say in the EU's policymaking processes.

Culturally speaking, those from member states that do not have such advisory bodies may not immediately understand their role and function. However, surveys show that when the role and work of the parliament and other bodies are explained, the citizen becomes more supportive. The primary challenge we all face is one of communication.

Bryan Cassidy
European Economic and Social Committee
Brussels

SIR – It is illogical to state that citizens want more say in decision making and then call for the scrapping of the Committee of the Regions. The elected members of the CoR represent the level of government that is closest to the citizen and are responsible for implementing 70% of the laws emanating from Brussels. Giving citizens a say in how laws are shaped is a fundamental democratic imperative. That you should see this as ineffective beggars belief. Where we are agreed is that economic reform and revival is key to overcoming Europe's "mid-life crisis". The local and regional authorities that the CoR represents will help to provide the impetus for that revival.

Michel Delebarre
President
Committee of the Regions
Brussels

Doing business in Austria

SIR – Your claim that Austria is protectionist and that foreign investors are badly treated is off keel ("The curse of the Habsburgs", March 31st). Just because one British private-equity group failed in its endeavours is no good reason to claim that the whole country is hostile to foreign business. For 25 years now the Austrian Business Agency has been assisting potential foreign investors with great success. Last year alone the ABA helped to conclude 152 deals. Moreover, many multinationals have established their offices in Austria to do business throughout the entire central and east European region, and Austrian tax legislation has been adjusted to make investing in the country very attractive indeed.

Gabriele Matzner-Holzer
Ambassador for Austria
London

The Irish angle

SIR – Much as I enjoyed reading both your leader and article on Northern Ireland I was astonished that you didn't attribute any credit for the latest developments in the peace process to Bertie Ahern, Ireland's taoiseach ("Now for the hard part"; "The impossible becomes reality", March 31st). Mr Ahern has persevered with the peace talks in a professional and selfless manner, most notably during the week of the Good Friday negotiations in 1998, when his mother died. He also took a risk by giving credibility to Sinn Fein thereby increasing its influence in Ireland, as recent elections have shown.

Paul Kavanagh
Bremen, Germany

Fossils

SIR – I found your description of the dictatorships in Myanmar and North Korea as "Neanderthal" to be quite unfair ("The great game in Asia", March 31st). Neanderthal man is famous for his premature extinction, whereas the regimes in Myanmar and North Korea are successful survivors in a rapidly evolving political world. Neanderthals also divided labour between the sexes, as you have noted ("Mrs

Adam Smith", December 9th 2006). But to the best of my knowledge neither Myanmar nor North Korea allocates power with gender in mind.

Moreover, there is no scientific evidence about the socio-political organisation of Neanderthal settlements that points to them being casually dominated by ruthless men happy to oppress and exploit their own people.

Frédéric Laforge
Lausanne, Switzerland

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France's presidential election

The race for the Elysée

Apr 12th 2007 | PARIS
From The Economist print edition

EPA

Four candidates will determine the outcome of France's presidential election, but only three have a realistic chance of winning

Get article background

AS THE French prepare to go to the polls to elect a new president, they have every reason to feel perky. The top 40 companies on the Paris bourse have been pulling in record profits. The TGV, France's homegrown high-speed railway train, has just reached the dazzling world-beating speed of 575 kph (357 mph) on the new line from Paris to Strasbourg. And after 12 torpid years under 74-year-old President Jacques Chirac, voters are about to hand power to a fresh, dynamic younger generation.

And yet the French head to the voting booths for their two-round poll, on April 22nd and May 6th, in a collective funk. They are fed up and fearful. Fearful that their jobs will disappear abroad, that their children will not find work, that the *banlieues* will explode again, that their welfare system will collapse. And they are tired of politicians who seem neither inclined nor capable of doing anything about it.

Not all of this declinism is justified. Elements of the methodically planned, generously financed French system still serve the country well. France's public hospitals are first-rate. Free nursery schooling has helped to boost birth rates to among the highest in Europe. French *dirigisme*, a tradition of state intervention reaching back to Louis XIV's finance minister, Jean-Baptiste Colbert, has delivered not just fast trains but nuclear energy and a municipal soccer pitch in every commune.

Yet in seeking to do too much, and to protect people too fully, the system has undermined risk-taking, put a brake on economic growth and imposed unsustainable costs for the long run. In each of the past five years, GDP growth in France has been below the OECD average. Today, while Germany's economy has taken off again, France's has stalled: in the fourth quarter of 2006, on a year-on-year basis, GDP grew more slowly in France than in any other European Union country except Portugal.

There are many reasons for this underperformance. They include—beneath the gloss of its top-notch global companies—a fragile industrial middle. But the single biggest problem is that not enough people work, and when they do, they do not spend enough time on the job. France's 35-hour work week is one of the shortest in the world; the employment rate for the over-55s one of the lowest; and unemployment has not dipped below 8% for 25 years. Over-protected jobs prompt employers to recruit temporary staff, thereby entrenching the very insecurity that protected job contracts are meant to prevent. Can it be coincidence that the world's biggest temping firm, Adecco, is French?

The upshot is indeed relative decline. Over the past 25 years, in terms of GDP per person, the French have slipped from seventh place in the world to 17th. Salaries have stagnated in real terms. Public debt incurred to prop up the system has grown faster than in any other EU-15 country, and now amounts to 66% of GDP.

Le menu présidentiel

Most-worn phrase:
Ségolène Royal: "We need a just order"
François Bayrou: "Bridge the left-right divide"
Nicolas Sarkozy: "We need justice and order"

Key proposal on Europe:
SR: Submit new EU treaty with "social protocol" to referendum
FB: Submit new EU treaty to referendum
NS: No new referendum; submit new slimline constitutional treaty to parliament

Attitude to Turkish EU membership:
SR: In favour (in time)
FB: Against, because undermines goal of EU political integration
NS: Against, ever

Key economic proposal:
SR: Boost minimum wage to €1,500 ($2,000) a month (19.6% increase)
FB: Free employers from social charges for two new jobs created
NS: Exempt time worked over 35 hours from social charges and income tax

Cost put on own programme:
SR: €35 billion **FB:** €21 billion **NS:** €32 billion

Cost put by others on programme*:
SR: €63 billion **FB:** €28 billion **NS:** €74 billion

Attitude to 35-hour-week rules:
SR: Critical, because too much power for employers (sic)
FB: Partly good, partly bad
NS: Worst mistake France ever made

Wealth declaration:
SR: Pays wealth tax; flat outside Paris, villa in Provence
FB: "Farmer", so exempt
NS: Pays wealth tax; flat in Neuilly recently sold

World leader most like to be photographed with:
SR: Michelle Bachelet, president of Chile
FB: Not met any recently
NS: Tony Blair

Daftest campaign comment:
SR: "Chinese courts are more efficient than French ones"
FB: "My presence in the second round will be a peaceful electric shock"
NS: "The French are not afraid of change. They're waiting for it"

What not to give the candidate for Christmas:
SR: Latest report into Chinese penal system
FB: New tractor (old one so much more authentic)
NS: Kärcher power-hose

Source: *The Economist* *Debat2007.fr (Institut de l'Entreprise)

For the past quarter-century the French seem to have accepted a sort of unwritten, profoundly conservative pact with their politicians. It goes something like this: we agree to elect you, the political class—all trained at the same post-graduate college, the Ecole Nationale d'Administration—and we will tolerate high unemployment as the price of the protection you guarantee for the rest of us. In return, you agree not to undermine that protection, and to preserve the system as it is.

Recently, however, this deal has been strained to its limits. The French no longer trust their politicians to shelter them, and are furious about it. They rejected the EU constitution in a referendum in 2005, partly in protest against an enlarged Europe that threatened to suck jobs out of France and which their politicians could do nothing about. When rioters set light to the *banlieues* in 2005, the French were reminded that

high unemployment has a searing social cost: the failure to integrate ethnic minorities.

When students took to the streets to protest against a less-protected job contract for under-26-year-olds last year, they were agitating for the status quo. When voters turn to the far-right Jean-Marie Le Pen, who edged out the Socialist presidential candidate, Lionel Jospin, in 2002 to win a place in the run-off, they are not only expressing crude unease about immigration: they are also rejecting mainstream politicians, whom they no longer trust to tell it straight or to defend them.

Against this malaise, fully 12 presidential candidates are hoping to supply a remedy. It is a mark of France's difficulties facing up to global capitalism in the 21st century that three are Trotskyites, promising solemnly to bring about the proletarian revolution. Another is a Communist. A fifth, José Bové, is an anti-globalisation protester, once jailed for trashing McDonald's. Together, the polls give this hard-left crew over 10% of the vote. Three other low-polling candidates represent, respectively, ecology, rural life and another variety of the nationalist far right. But the outcome of the election will be determined by the remaining four candidates: Ségolène Royal on the left; François Bayrou in the centre; Nicolas Sarkozy on the right; and Mr Le Pen on the far right.

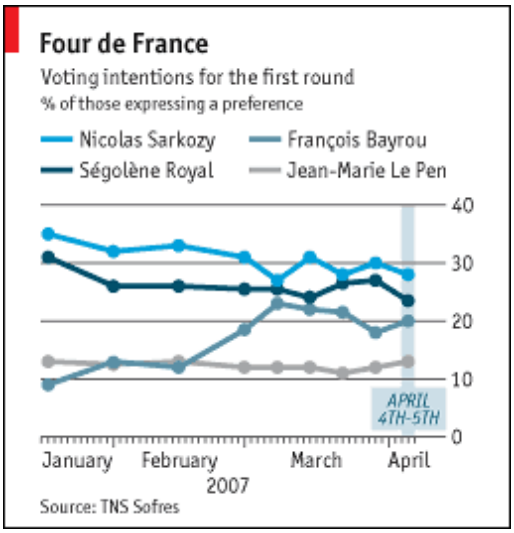
White and left

Three years ago, an upstart Socialist outsider stood for election to the regional presidency of Poitou-Charentes, against the protégée of the sitting centre-right prime minister, Jean-Pierre Raffarin. The candidate was Ségolène Royal, and she won hands down. In the family photograph of the 20 new Socialist regional presidents, she is the only woman, a streak of white amid the men in suits. Ms Royal still makes a point of being different. In her Paris campaign headquarters, an elegant left-bank apartment, she drapes necklaces along the mantelpiece, and mixes white soft furnishings with fuchsia-pink light.

Backed by her popularity in the polls, Ms Royal defied the crushing scepticism of her own party heavyweights to secure the Socialist Party presidential nomination late last year. A mother of four, whose partner, François Hollande, happens to be the party boss, she seemed to embody modernity. She talked unlike any leader on the French left, admiring Tony Blair's employment record and using taboo phrases like “labour flexibility”. She proved internet-savvy, and promised a new “participatory democracy”. At last, it seemed, here was a leader who could modernise the French Socialists.

In reality, she has turned out to be a curious blend of social authoritarianism—as schools minister, in the late 1990s, she once battled against the wearing of visible G-string underwear at school—and resolutely left-wing economics. Her platform is based on a “presidential pact” of 100 propositions and topped with ideas she has dreamed up ad hoc on the campaign trail.

Ms Royal promises to boost the minimum wage to €1,500 a month ($2,000, a 19.6% jump), increase the lowest state pensions by 5%, abolish the new flexible job contract for small firms, create 500,000 subsidised jobs for young graduates, and pay the entire salary and social charges for unskilled young people to work for a year in small businesses. She plans a big increase in spending on universities, research and innovation, and the construction of 120,000 social housing units a year.



To pay for all this, it is hard to see how Ms Royal could avoid putting up taxes. She insists, however, that she will not increase the overall tax burden. Instead, her plans, which optimistically assume annual GDP growth of 2.5%, depend heavily on that familiar fallback: eliminating waste.

As Ms Royal has criss-crossed France, posing with striking workers at a car factory outside Paris or urging a mass rally in Marseille to sing the national anthem, one word has been virtually absent from her speeches: growth. Indeed, her determination to make things *juste* (fair) seems to triumph over her analysis of how to achieve it. A businesswoman at an election forum organised by *ELLE* magazine last week asked her in what way raising the minimum wage would help entrepreneurs to create jobs. Ms Royal retorted that the minimum wage, at its current level, was simply too low to pay the rent. In other words, she seemed to be saying, the impact on job creation was not the point.

Some of this is crowd-pleasing campaign extravagance. With her numerous rivals campaigning on the hard left, Ms Royal needs constantly to watch that flank. “If you think that she is too left-wing,” says one of her advisers, “you should hear what the extreme left says about her.” Moreover, once in office the French left has often turned out to be surprisingly pragmatic. All the same, Ms Royal remains well to the left of most European social democrats. She has never even met Mr Blair.

It is a measure of Ms Royal's failure to transform the Socialists into a party of modern social democracy that a space has opened up in the centre for Mr Bayrou. Although his surge in the polls has levelled off lately, he remains a contender, drawing those disillusioned both with the palaeo-Socialists and Mr Sarkozy on the right.

A former education minister repackaged as a provincial farmer from the south-west, Mr Bayrou promises to “bridge the left-right divide”. His programme is a mix of fiscal prudence and old-style interventionism. He is admirably bold about curbing public debt, and promising to spend only what the state can afford. He hopes to encourage job creation, by allowing each company to hire two workers free of payroll charges. He wants to lower France's wealth tax by broadening its base.

Yet the details behind Mr Bayrou's programme betray an instinct for meddling. Why restrict companies to recruiting only two workers without social charges? To pay for it, he would increase social charges on low wages generally, which would hinder job creation elsewhere. He would also renationalise, and merge, the electricity and gas utility. And he wants fiscal harmonisation across the euro zone. Mr Bayrou's true political family is neither liberal nor of the left but continental Christian democracy, with its patrician traditions.

His Union for French Democracy holds only 27 seats out of 577 in the National Assembly. Traditionally, French political parties, built around their leaders' personalities, have been more fluid than the tribal kind found in Britain or America. Even so, it would take an historic realignment for Mr Bayrou to secure the stable, working majority in parliament that he would need to govern with authority.

Rive droite

Across the Seine, in his plate-glass and steel headquarters, Mr Sarkozy smiles only nervously, despite polls that consistently put him ahead. Having backed a losing candidate in the 1995 presidential election, he knows defeat up close. This time, with his slick team of marketing, internet and polling types, he does not want to fluff his own chances. He has prepared for this moment for some 25 years.

Mr Sarkozy's economic programme defies classification. On industrial policy, he is an unapologetic interventionist. He is proud of having rescued Alstom, an engineering firm, from bankruptcy with taxpayers' money when finance minister, in 2004. He says it was “a mistake” to have sold Arcelor, a steelmaker taken over by Mittal last year.

Three elements of Mr Sarkozy's programme, however, are of more liberal inspiration. First, he understands the need to remove obstacles to job creation. He plans to liberalise the 35-hour week by exonerating all overtime from payroll charges and income tax. Second, he believes in minimising taxation. He wants to lower the overall personal tax rate (including taxes on wealth, property and income) from 60% to 50%; he would reduce tax on corporations and on inheritance; and he promises, albeit optimistically, to cut the overall tax burden by four percentage points over ten years, and public debt to 60% of GDP by 2012.

AFP

Le Pen, with shadow

Third, Mr Sarkozy is ready to confront France's bastions of conservatism. He promises to give universities more autonomy, letting them compete to recruit staff and students. He says he would break the big five unions' statutory stranglehold on representation in companies. He intends to introduce a law that will guarantee “minimum service” on public transport during strikes. And he wants to reform the special pension regimes for railway drivers and other state employees that enable them to retire early on full pension.

Mr Sarkozy is the only candidate who seems both to have understood the urgency of reform and to have the abrasiveness to stand a chance of

carrying it out. A political outsider, who fought his way to the top of the Gaullist party through hard work and cunning, he remains fearless in the face of opposition. Anticipating resistance, his advisers are already working on a draft of the law on minimum service, so as to curb the effectiveness of strikes.

When voters tell pollsters that they find Mr Sarkozy scary, this is partly what they mean: his atypical willingness to shake things up. But they are also referring to his hard-line reputation on security. As interior minister, Mr Sarkozy played the tough guy: putting illegal immigrants on the plane home, evacuating clandestine squats and clamping down on prostitution. Controversially, he adopted *banlieue* jargon, such as *racaille* (scum) to refer to criminal thugs, and talked about taking a *Kärcher*, or industrial power-hose, to them.

In the past Mr Sarkozy balanced his tough-cop stance with an imaginative approach to integrating minorities. The son and grandson of immigrants (his father was Hungarian, his maternal grandfather a Jew from Salonica), he advocated affirmative action to build ladders out of the *banlieues*. In a country with the EU's biggest Muslim population—some 5m—he also set up a Muslim council to give French Islam an official voice.

Yet on the campaign trail Mr Sarkozy has gone quiet on such progressive ideas. One reason sits to his extreme right: Mr Le Pen. Polls tend to underestimate Mr Le Pen's support. But a new one, by LH2, gives him 15%—more than he got before the 2002 election. And this despite a minimalist campaign, with just a handful of rallies.

Mr Sarkozy's team is wary about Mr Le Pen again this time. Some suggest that supporters for the far-right former paratrooper are disguising themselves as Sarkozy voters in the polls. Although unlikely, another second-round place for Mr Le Pen (with victory assured for his opponent in that run-off) cannot be ruled out. Mr Le Pen may be trailing in fourth place, but some 45% of voters say they are still undecided. And polling, done by fixed-line telephone, under-represents young people. This could mean that Ms Royal's support, high among the young, is also understated.

The odds are still that Mr Sarkozy and Ms Royal will make it through to the second-round showdown. Polls suggest Mr Sarkozy would emerge the victor. But French voters often use the second round to reject the candidate they dislike most, as much as to back the other. In a book hastily published last week, Mr Sarkozy seemed to be preparing the ground. “I've changed,” he insisted. “The young man in love with adventure and ready to sacrifice everything to his ambition that I was has become a calmer adult.” By appealing so hard to their respective political bases in the first-round contest, both Mr Sarkozy and Ms Royal would face a tough clamber back towards the centre.

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Indian tribes and casinos

The last shall be first

Apr 12th 2007 | CABAZON AND PEACH SPRINGS
From The Economist print edition

AP

Tribes near the coasts and the cities were once the poorest. Gambling has certainly changed all that

THERE are two kinds of house on the Morongo Indian reservation: those that were built before the casinos opened and those that came after. The house where Mary Ann Andreas grew up has two rooms and, as she remembers, no electricity or running water. Her new house, just a few hundred yards away, has a two-car garage and “all the amenities”. It is not, however, the most ostentatious house on the reservation. And if a gambling bill that was debated in California's Senate this week becomes law, it may come to seem rather modest.

Twenty years ago the Supreme Court ruled that states had no right to restrict gambling on Indian reservations if they allowed it elsewhere. At the time, several tribes, including the Morongo, ran nothing more ambitious than bingo halls. That has changed. In 2005 there were 391 casinos and gambling rooms on Indian lands, with total revenues of $22.6 billion—more than Atlantic City and Las Vegas put together.

Half of California's 100-odd tribes now run gambling operations, but the Morongo have profited more than most. Their small, windy reservation near Cabazon is next to the main road east from Los Angeles. The tribe's 27-storey hotel (see above) currently has 2,000 slot machines. The bill now being discussed by state politicians would allow it to install 7,500. People used to leave the reservation in order to work. Now some 3,000 workers, few of them Native Americans, arrive each day.

As for the Morongo, most no longer do any paid work at all. The 775 adult members of the tribe receive seven-tenths of the casino's profits in dividends (the rest is spent by the tribal government). The exact sum is kept secret, but Robert Martin, the tribal chairman, allows that it is roughly $15,000 to $20,000 per person, per month. Not surprisingly, some people have rediscovered their Morongo roots and moved back to the reservation. As Mr Martin observes wryly: “It wasn't fashionable to be Indian until recently.”

Tribes such as the Morongo have become so rich, so quickly, that it can appear as though they have hit the jackpot in one of their own casinos. In fact, the pattern of success is more predictable. Gambling has created a clear hierarchy of tribal winners and losers, which roughly reverses the pattern that held before the first quarters began rolling into tribal slot machines.

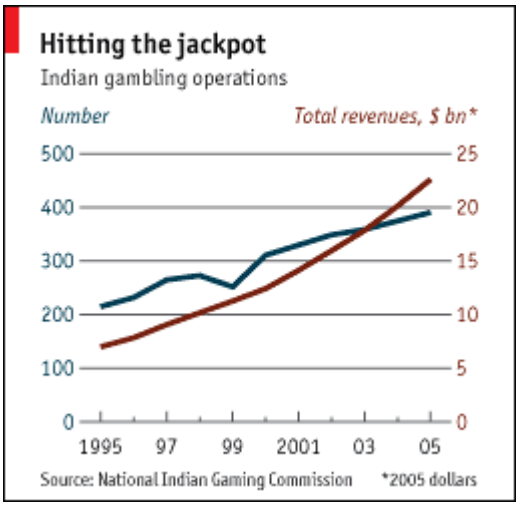
Before gambling, the fortunes of Indian tribes depended on being as far from non-Indians as possible. On the crowded coasts and in the Midwest, most tribal lands were lost to white settlers. Diluted by

intermarriage and drained of young people by nearby cities, the coastal tribes were also subjected to “termination” programmes designed to break their traditional culture and leadership. Life was hardly easy in the thinly-populated plains and the western desert, but at least tribes there were able to hold on to their language and, often, to large tracts of land, some of which turned out to contain oil and uranium.

Jonathan Taylor and Joseph Kalt of Harvard University have shown that the tribes that go in for gambling often began poor, even by Indian standards. In 1989 the average household income on a reservation that subsequently set up a casino was a pitiful $13,000. That was 18% less than the average in the non-gambling tribes, excluding the giant Navajo Nation, and less than half of the American average. By 1999 average income in the gambling tribes had increased by more than a third in real terms. And the geography of wealth has changed. The small tribes near Los Angeles and New York (where the Mashantucket Pequot and Mohegan tribes run huge casinos) are now among the richest.

The Hualapai Indian reservation in Arizona, like the Morongo reservation, is about two hours' drive from a growing city that attracts many tourists. Unfortunately, the Hualapai's neighbour is Las Vegas. When the 1,500-member tribe tried to open a small casino in the mid-1990s, it quickly failed. People do not leave America's gambling capital in order to gamble.

The Hualapai tribe is one of the more enterprising in America. In 1994 it shrewdly decided to set up a development corporation and remove day-to-day business decisions from the hands of the tribal government. A group of educated young men and women soon took over the tribe's businesses and have since expanded the reservation's two hotels and river-rafting offerings. Last month the tribe opened a platform that loops out over the Grand Canyon, which it hopes will become a tourist honeypot.



But the tourist business is not the same as the casino business. Unemployment on the Hualapai reservation, although lower than in the past, varies between 20% and 40% depending on the season, according to Waylon Honga, who runs the corporation. At least a third of adults suffer from diabetes and alcoholism is common. Houses in Peach Springs, the main settlement, are often encircled by rubbish. One abandoned building bears graffiti of the kind that is normally found in big cities: “Crips” and “BK” (Blood Killers).

Although they lack a casino, the Hualapai have been affected by gambling. Under Arizona law, they can sell their slot-machine rights to another tribe, and so receive a modest income from the Salt River Pima, who enjoy a better location near Phoenix. More painfully, says Joe Flies-Away, the chief judge, some have engaged in a kind of reservation shopping, disenrolling from the tribe and using family connections to join others that run casinos and pay monthly dividends.

The success of a few gambling tribes has also changed public attitudes to Indians in general. A group that used to be pitied as impoverished—and still is, overall—is now more likely to be seen as rich and powerful. Some tribes have reinforced that impression by naively giving money to politicians and lobbyists including, notoriously, Jack Abramoff. According to the Centre for Responsive Politics, the gambling tribes spent $7.6m on last year's mid-term elections, which is more than the defence aerospace industry or the tobacco companies did.

The biggest threat to the casino-owning tribes is that they will lose their privileged position. Cash-strapped states look covetously at Indian casinos, which pay fewer taxes than businesses off the reservation. Some, such as Iowa and Michigan, have liberalised gambling laws and made it easier for non-Indians to set up casinos. Others, including Arizona and California, have worked out ways of extracting more taxes from the wealthiest tribes.

One way that the casino-owning tribes have tried to head off criticism, which often comes from other Indians, is to accentuate their Indianness. The Morongo are buying old pottery and baskets and reviving tribal ceremonies, some of which were barely remembered outside anthropological texts. A few are learning Cahuilla, a language that seemed doomed just a few years ago. And they share some of their profits with other tribes.

Tribes like the Morongo are also investing in education and pouring money into other enterprises. The

Morongo reservation now boasts restaurants, a shop, a petrol station and a large water-bottling plant. There is talk of gambling on the San Diego property market. Casinos have been good to those tribes that happened to be in the right place. But few believe the good times will last forever. As Ms Andreas says, “The drums are beating.”

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Immigration

Bringing order to the border

Apr 12th 2007 | WASHINGTON, DC
From The Economist print edition

A new chance to fix the system

PEOPLE can get emotional about immigration. Bill O'Reilly, a talk-show host, devoted a recent segment to the story of an illegal alien who got drunk and accidentally killed two attractive white girls with his car. If only he had been deported for previous misdemeanours, Mr O'Reilly raged, those girls would still be alive. Another talk-show host, Geraldo Rivera, during an on-air shout-joust with Mr O'Reilly, denounced his demagogic choice of story-angle as “a sin”.

President George Bush tried again this week to bring a more rational tone to the debate. In a speech to Border Patrol agents in Arizona on April 9th, he urged the new Democratic Congress to revive the immigration reforms that the old Republican Congress killed last year. His proposal was broadly the same as before. He said he wanted to make it harder to enter America illegally, but easier to do so legally, and to offer a path to citizenship for the estimated 12m illegals who have already snuck in.

The first part faces few political hurdles and is already well under way. Mr Bush expects to have doubled the number of Border Patrol agents by the end of next year, to 18,000. While the new recruits are being trained, some 6,000 National Guardsmen are providing reinforcements. And to defend against the invading legions of would-be gardeners and hotel cleaners, the frontier is also equipped with high-tech military gizmos, such as unmanned spy planes with infra-red cameras.

This may be having some effect. Mr Bush boasted that the number of people caught sneaking over the border had fallen by nearly 30% this year, implying that fewer are trying. He added that he had stopped the habit of “catch and release”, whereby non-Mexicans were freed and told to come back later for a deportation hearing, for which few showed up. Now they are detained until they can be deported, while Mexicans are sent straight back to Mexico.

Less effort has been made to punish firms that employ illegals. In 2004 the total number of employers fined $5,000 or more for this was zero—not much of a deterrent. Mr Bush said this week that Michael Chertoff, the secretary of homeland security, is now “cracking down”, but he did not reveal exactly how. Mr Chertoff revealed in October that 716 employers were arrested for hiring illegals last year, but it remains to be seen how severely they will be punished.

And the controversial part of Mr Bush's immigration package—allowing more immigrants in and offering those already in America a chance to become legal—is still just a plan. House Republicans squashed it last year. Mr Bush senses a second chance with the new Democratic Congress, but Democrats, like Republicans, are split on the issue. Some, notably Ted Kennedy, think America should embrace hard-working migrants. Others fret that hard-working migrants will undercut the wages of the native-born.

Mr Bush would like to see the pro-immigrant wings of both parties work together to give him a bill he can sign. The Senate is expected to squeeze in a debate next month. The administration is trying to entice law-and-order Republicans on board; a recent leaked memo talked of substantial fines for illegals before they can become legal and “much bigger” fines for employers who hire them before they do.

The biggest hurdle, however, may be the Democrats' reluctance to co-operate with Mr Bush. Some figure that, rather than letting their hated adversary share the credit for fixing the immigration system, they should stall until a Democrat is in the White House and then take it all. That way, they hope, Democrats will gain a long-term lock on the swelling Hispanic vote. But that would be a risky strategy. Voters might just as easily conclude that Democrats would rather carp than govern. So there is a selfish as well as a moral argument for making a deal.

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Troubled Republicans (1)

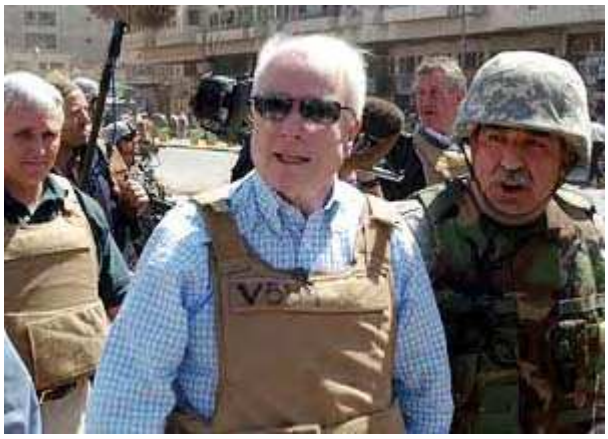
The comeback grandpa?

Apr 12th 2007 | WASHINGTON, DC
From The Economist print edition

Don't write John McCain off

IT IS hard to believe that John McCain is relaunching his presidential campaign. After all, that campaign is the longest-running show in American politics. Mr McCain is a fixture on the talk-shows—and a bit-player in such low-brow comedies as “The Wedding Crashers”.

AFP



Just strolling down the street for a quart of milk

But “relaunch” is hardly too strong a word for it. Mr McCain has delayed the formal announcement of his presidential bid until the end of the month. He is making room for three “major” policy speeches, and is revamping his fund-raising apparatus to make it more like the Bush machine that crushed him in the 2000 presidential campaign. He has also made room for a “blogger conference call”, to give the impression that he is both accessible and au fait with modern technology.

He has little choice but to do something drastic. For weeks he has been trailing Rudy Giuliani both in the polls and in the fund-raising race. He had hoped that he would build such a powerful machine that his conservative critics would line up behind him; instead, the machine is so rickety that ex-friends in the media are lining up to write his obituary.

The relaunching process got off to a dismal start. Mr McCain began by sort-of-apologising for a recent stroll through a Baghdad market that did little to burnish the image of the straight talker of legend. The market was much safer than it used to be, he claimed, while being clearly guarded by a legion of soldiers and a phalanx of helicopter gunships.

He faces plenty of obstacles. The long-time crusader against money in politics needs to turn himself into a fund-raising machine. And the long-time maverick needs to placate conservative interest groups. All the same, it is too early to write him off.

Mr McCain is adopting a high-risk strategy for success: he is backing George Bush's Iraq surge to the hilt. On April 11th, the day of the original official launch, he gave a vigorous speech at the Virginia Military Institute arguing that the war is essential for America's national security and suggesting that the surge is beginning to work. This may prove disastrous. Around 60% of the public regards the war as a mistake, and Republican loyalists are falling over themselves to denounce Mr Bush.

But equally it may be the shot in the arm that Mr McCain needs. He plainly believes what he is saying. So the straight talker is back, but this time defending an unpopular cause. He lambasted congressional Democrats for cheering when they voted to defund the war. “What were they celebrating? Defeat?

Surrender?”

He has perfect credentials for this stance, ranging from his own background in the navy to the fact that he has criticised Mr Bush's botched execution of the occupation from the start. And 70% of Republican voters still say that they think the war was worth waging.

A prominent Democratic congressman, observing Mr McCain's difficulties, notes—not entirely without sympathy—that “in politics it's a lot easier to lose your friends than it is to win over your enemies.” It is true that some conservatives, such as James Dobson, a right-wing religious leader, and the Club for Growth, which supports the Reagan “vision”, will never support him. But there are also signs that other conservatives are beginning to take a second look. Both the *Weekly Standard* and the *National Review* have published cover articles making the case for him.

Mr McCain has more foreign-policy and military experience than the rest of the Republican field combined. He has a more solid conservative record than either Mr Giuliani (who recently scandalised conservatives by saying that he supports public funding for abortion) or Mitt Romney (who turns out to be something of a serial panderer). And he is clearly willing to stick to his guns on an unpopular issue. Conservatives would be foolish not to ponder the contention, put forward by Senator Lindsey Graham, that Mr McCain represents the best combination of “conservatism and electability” available.

It is not unusual for front-runners to stumble in American primaries. Al Gore was so worried that he would lose to Bill Bradley that he moved his campaign headquarters to Nashville and swapped blue suits for earth tones. John Kerry once mortgaged one of his houses to keep his campaign afloat. George Bush senior and Bob Dole both struggled to win the Republican nomination in 1988 and 1996. Mr McCain, now aged 70, could yet become the oldest comeback kid in American history.

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Troubled Republicans (2)

Mitt the moneymaker

Apr 12th 2007 | COLLEGE STATION, TEXAS
From The Economist print edition

If only that was all you had to do

MITT ROMNEY has a way with money. He founded a successful private-equity firm, Bain Capital; his personal fortune is estimated to be hundreds of millions of dollars. And the former Massachusetts governor is good at fund-raising. In January his supporters congregated in Boston for a fund-raising call-a-thon. After just one day, the campaign reported more than $6.5m in cash and commitments.

But Mr Romney's fund-raising results for the first quarter of 2007 were still an impressive surprise. He raised $20.6m, enough to whomp his Republican rivals. Rudy Giuliani mustered $15m; John McCain scraped together a mere $12.5m.

It helps Mr Romney that his Rolodex is stuffed with wealthy supporters. His money came from just 33,000 contributors. Mr McCain, in contrast, relied on 60,000 people. And the campaign credited its success, in part, to a software package that salesforce.com has developed. ComMITT, as the campaign calls it, treats contributors as customers and tracks them using customer-relationship management techniques. According to the Salesforce people, the software is easy to use, relatively cheap and adaptable. A presidential candidate could use it, but so could the guy running for dogcatcher.

The lesson may be that fund-raising innovations are all well and good, but not sufficient. The path to the White House is not necessarily a yellow brick road. The latest Gallup poll, released on April 10th, had dismal news for Mr Romney. He ranked fifth among Republican presidential candidates with just 6% of the vote. Mr Giuliani and Mr McCain are at 38% and 16% respectively. He also trails two people who are not officially running—Newt Gingrich, a former House speaker, and Fred Thompson, a former senator and TV actor, whose recent announcement that he has cancer has merely encouraged speculation that he is about to plunge in.

Supporters say it is a matter of name-recognition. A February Rasmussen survey showed that 31% of voters do not know enough about Mr Romney to judge his candidacy. Almost everyone has an opinion about Mr Giuliani and Mr McCain. But the same survey found that slightly more than a third of voters have an unfavourable view of Mr Romney, about the same as his rivals.

Mr Romney's campaign has so far failed to bewitch Republican primary voters. This much was clear at a speech on April 10th at the Annenberg Presidential Conference Centre in College Station, Texas. George Bush senior was there to introduce Mr Romney to a sympathetic audience. The candidate spoke well and looked nicely presidential, but his reception was merely warm. Right now Mr Romney needs attention and fans more than money. Perhaps he should think about sending every registered voter a dollar.

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Protecting sources

Go to jail

Apr 12th 2007
From The Economist print edition

Do bloggers enjoy the same rights as journalists—and what would those be?

ON APRIL 3rd a handful of supporters greeted Josh Wolf as he came out of prison in Dublin, California. He had spent more than seven months in jail for refusing to testify and turn over to federal prosecutors a videotape of a 2005 street demonstration in San Francisco. The prosecutors were investigating injury to a policeman and minor damage to a police car. It is apparently the longest an American journalist has served for protecting his sources and materials.

What makes the case odder is that Mr Wolf, who is 24, is a video-blogger as much as a freelance journalist. Moreover, the material was from a public setting and the sources have scant claim to confidentiality. He could have been protected by California's generous “shield law” for journalists, but the federal government became involved on the thinnest of pretexts: namely, that it partly finances the San Francisco Police Department.

This made Mr Wolf feel that though the evidential value of his videotape was low, the federal prosecutors meant to force him to identify the masked protesters before a grand jury. This, he said, would have transformed him into an investigator for the government. So he chose jail instead.

The case raises hard issues. What are the rights of bloggers in an era when almost anyone may claim to qualify for a journalist's protection? What legal privilege do reporters enjoy to keep source material from government's prying eyes? And did federal prosecutors abuse their authority by bringing charges for small municipal offences, thereby deliberately bypassing the state's law shielding journalists?

The matter comes to a head as the media's legal rights are in flux after the trial of Lewis “Scooter” Libby, a White House aide, for perjury. The trial, which ended in March, saw nearly a dozen reporters compelled to testify, most of them against their will. Judith Miller, then a reporter for the *New York Times*, spent 85 days in prison to avoid testifying, until Mr Libby relieved her of confidentiality.

Mr Wolf's case, like Ms Miller's, underscores the reality that journalists—or simply those who behave as if they were journalists, when formally they are not—have few rights to shield themselves from revealing their sources or divulging reportorial material. Although 49 states offer certain rights (Wyoming is the exception), only the barest protection exists at national level. Potential federal legislation, which has bipartisan support, would require prosecutors to show that the information is necessary and cannot be otherwise obtained. The debate is over how broad the shield should be. Apply it too widely and the protection will inevitably be diluted; too narrowly and many eligible people will not be covered, explains Floyd Abrams, a first-amendment lawyer.

In 1972 the Supreme Court, in the *Branzburg* case, said that reporters had no shield. But a concurring opinion contained the remark that the government should show the “necessity” of forcing reporters to testify. Prosecutors have largely accepted this legal gloss, until the recent cases when they have pounced on the press—or on “citizen journalists” like Mr Wolf.

“The whole issue of whether or not I am a journalist is irrelevant: the first amendment was written to protect pamphleteers,” says Mr Wolf. He did not have time to get a card-carrying reporter's job, since he was imprisoned two months after graduating from university. “This was my entry into the world of journalism,” he says, “and a hell of an entry it was.”

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Racial politics

A double standard?

Apr 12th 2007 | WASHINGTON, DC
From The Economist print edition

A shock jock talks; three innocent jocks walk

LAST week, a man famous for being rude said something rude. Don Imus, a radio and television “shock jock”, referred to the women's basketball team from Rutgers University, which had just come second in the national college championship, as “nappy-headed ho's”. For non-American readers, “nappy-headed” refers to unkempt black curly hair. “Ho” is short for “whore”.

All in all, it was a pretty offensive remark. Was it worse than calling the New York Knicks (a professional basketball team) “chest-thumping pimps”? Or calling Hillary Clinton “that buck-tooth witch Satan”? Many would say yes. Those previous Imus-gueules were at least aimed at adults and, in Mrs Clinton's case, a politician. For a big-time broadcaster to cast aspersions on the sexual habits of blameless students seems a bit like bullying. And the “nappy-headed” crack sounds racist.

So Mr Imus is in trouble. MSNBC has dropped his television show and CBS radio has suspended him for two weeks. Some advertisers say they will now boycott his show. Barack Obama called his words “divisive, hurtful and offensive”. The *New York Times*, the *Washington Post* and *USA Today* all made the Imus saga their top story on April 11th.

Was this an over-reaction? Well, it has been a slow news week. Some Americans fret that there is a double standard. Black comedians such as Eddie Murphy and Chris Rock use the word “ho” all the time, without controversy. And Stevie Wonder refers to himself as “nappy-headed” in his song “I Wish”. Ah yes, but those black comedians are mocking misogynistic rap culture, and Mr Wonder was mocking himself. The more obvious double standard is that Jesse Jackson, a black politician who led a protest against Mr Imus, once referred to New York as “Hymietown”.

Meanwhile, in North Carolina, a more consequential racially-charged dispute ended this week. The state attorney-general exonerated three white lacrosse players at Duke University who had been accused a year ago of raping and assaulting a black stripper at a party. The media and much of the Duke arts faculty had trumpeted the case as an example of how wealthy white men abuse their power over poor black women. But the accuser kept changing her story. DNA evidence appeared to clear the three, and one had a solid alibi. The prosecutor who initially pursued the lacrosse players, who was then up for election, is now facing disciplinary proceedings. Mr Jackson, who had offered to pay the accuser's college fees, said he hoped the saga would end “with the minimum amount of damage”.

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Voting rights

Out of the cell, into the booth

Apr 12th 2007 | TAMPA
From The Economist print edition

Florida sees the light

“JUSTICE delayed is justice denied, and people are waiting.” Thus Charlie Crist, Florida's governor, at the beginning of a meeting on April 5th of the state board of executive clemency. By the end of that meeting, Mr Crist had persuaded two of the board's three members that most felons who had served their time should automatically recover the right to vote.

Until now, Florida was one of only three states—the others are Kentucky and Virginia—which denied the right to vote to all ex-offenders. Nine others require ex-felons to submit to background checks before they can vote again; some categories of offenders lose the right for good. Florida's law dates back to 1868, in the days of Reconstruction after the civil war. Now the state has changed course.

Its ex-felons have not had every right restored by Mr Crist and the clemency board. They still can't request a commutation of their sentences, or own a firearm. And violent career criminals or those convicted of major crimes—arson, the poisoning of food or water, murder, some sex crimes—will still have to go through a pile of paperwork before they can vote again.

These changes did not come without a fight within the governor's own Republican Party. The state's former Republican governor, Jeb Bush, had long opposed them, and Mr Crist and Bill McCollum, the state's attorney-general, openly fell out. Mr McCollum, the former Florida congressman who led the drive to impeach Bill Clinton, called the changes “reckless and irresponsible”. Mr Crist's rejoinder was simple; these people had paid their debt in full, and to restore their rights was simply the right and just thing to do.

The governor also had to defend his stand to law-enforcement organisations, many of which had supported him in his campaign for governor in 2006. He did so by noting that the overall crime rate in Florida is at its lowest in 35 years. In a syndicated column that appeared early in April in several Florida newspapers, Mr Crist noted that “there is no historical record in states that have restored civil rights to argue that restoration has increased crime."

The governor remains hugely popular. One recent poll put his approval rating at 73%. His kindness to felons does not seem to have hurt him; and indeed, when he runs for re-election in 2010, those thousands of extra ex-felon votes will only do him good.

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Racing cars

Corn-propelled

Apr 12th 2007 | MIAMI
From The Economist print edition

The IndyCar Series gets ahead of the pack

THIS year's IndyCar Series, America's “open-wheel” version of Formula One Grand Prix racing, is not like any other. After the first two races of the season, held in Florida, drivers sniffed the air appreciatively. “It's kind of sweet. It's very organic and it's not really a harsh smell at all,” said Jeff Simmons, a driver with the Rahal Letterman team. What he was sniffing was ethanol. And as the large “E” signifies on the green flag that drops to start each race, all the whirling motors on the track are now propelled by corn-fuel.

The idea of linking ethanol and the IndyCar Racing League (IRL) came from Paul Dana, a driver who died a year ago while practising for a race. Dana had constructed a sponsorship deal that was intended both to make motor-racing greener and to give a shot in the arm to IndyCar racing in particular. Under the deal, the ethanol industry supplies the IRL with free fuel for its races, while the IRL can present itself as greener and more patriotic than its competitors. It's a good marriage: the Midwestern corn belt is also the heart of racing country.

For its part, the ethanol industry is hoping that a bit of high-performance glamour on the track will help the general public to embrace biofuels at the pump. Ethanol still has a long way to go before it is taken seriously as an alternative to petrol. But it has begun to make inroads in new markets. Ethanol-blended petrol was successfully introduced last year in Texas and the north-east, largely as a 10% additive known as E10. Florida may eventually do the same.

Experts say ethanol is better for your car, especially if you want to go fast. It burns hotter than petrol, giving cars better torque (acceleration) and overall handling. IndyCar technicians say it required only minor modifications to make the switch to ethanol, including an improved cooling system to cope with the greater heat. And petrol never left a pleasing aroma of warm corn fritters behind.

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Lexington

Where's the beef?

Apr 12th 2007
From The Economist print edition

Kevin Kallaugher

Barack Obama has passed the money test with flying colours. Now for the policy test

A FEW weeks ago the Democratic candidates held a forum on health care in that well-known centre of policy debate, Las Vegas. John Edwards produced detailed proposals for universal health coverage, including tighter regulations and a tax hike. Hillary Clinton left no doubt of her mastery of the subject. But Barack Obama resorted to empty waffle, endorsing the idea of universal coverage but confessing that he had not yet produced a health-care plan. An odd failure, given that the forum was devoted to the subject—and that this is one of the most important issues for Democratic voters.

The Obama team now says that a plan is in the works. But Mr Obama is certain to face the charge, over the next few weeks, that he is all hat and no cattle. Mrs Clinton suffered a severe blow to her "inevitability gambit" when Mr Obama almost equalled her overall money haul ($25m versus $26m) and actually raised more money than her for the primaries ($23.5m compared with an estimated $20m). Now she is likely to pulverise Mr Obama over his lack of policies. And Mr Edwards, who has made a point of turning himself into a policy wonk, can be expected to join in the pulverising.

If policies were all, Mrs Clinton could smother the Obama challenge under a pile of policy papers. She has been engaged in improving society for 30 years. She was a hyperactive first lady, masterminding a gigantic plan for overhauling America's health-care system, intervening incessantly in policy debates and visiting more than 80 countries. Her campaign speeches are a constant reminder of how much she knows about everything, from foreign policy to labour relations.

Mr Obama is a neophyte by comparison (he was an angst-ridden schoolboy in Hawaii when Mrs Clinton was getting her first taste of Washington during the Watergate affair). His experience is limited to two years in the Senate in Washington, DC, and six years in the Senate in Springfield, Illinois. He has no executive experience. He prefers uplifting speeches to detailed policy recommendations. The policy-related passages in "The Audacity of Hope", his second autobiography, are scattershot and banal.

But how much of an edge has Mrs Clinton, really? Not as much as she would like. She has no more hoovered up all the Democratic talent than she has hoovered up all the Democratic money. The Clintonistas have been going around Washington pressing policy wonks into "committing" to the cause. But not everybody has complied. Mr Obama has recruited Tony Lake, a former national security adviser; Greg Craig, a leading Washington lawyer and a former adviser to Madeleine Albright; William Daley, a

former commerce secretary; and a host of younger talents, who feel that the old guard will hog all the plum positions in a Clinton administration. It is a sign of Mrs Clinton's troubles that Rahm Emanuel, one of the architects of the Democratic takeover of the House, has shifted from being a Clinton supporter to being neutral ("I'm hiding under my desk," he says).

Mrs Clinton will also have problems flexing some of her most developed policy muscles. She has spent years boning up on foreign and defence policy, most recently as a member of the Senate Armed Services Committee. But for many Democratic primary voters she is defined by her support for a catastrophic and unpopular war. Mrs Clinton is also one of America's leading health-care wonks. But once again she is defined by her involvement in a failure—this time her own disastrous attempt to reform health care back in 1993.

And how much does Mrs Clinton's policy edge matter? Again, probably not as much as she might hope. After six years of George Bush, the country is in no mood to elect another fly-by-the-seat-of-his-pants lightweight. But command of policy is not a make-or-break issue. Mr Obama almost certainly has the wherewithal to put together policies on a wide range of subjects. And he is almost certainly a quick enough study to avoid being tripped up by details such as who is the president of Pakistan (as Mr Bush famously was in 2000). You don't spend ten years as a professor at the University of Chicago without learning how to deal with tough questions.

Prescience, not position-papers

Mr Obama has already shown that he possesses something more important than expertise—judgment. His prediction about the Iraq war back in 2002 has proved strikingly prescient. He argued that Saddam Hussein "poses no imminent or direct threat to the United States or to his neighbours", and gave warning that "even a successful war against Iraq will require a US occupation of undetermined length, at undetermined cost, with undetermined consequences."

Since then he has remained a critic of Mr Bush's foreign policy without ever giving into the Siren-voices of the far left. He says, for example, that America should never put withdrawal of its troops from Iraq and improvements in its relations with allies above national security. His challenge now is to keep advancing on two fronts at once: keep burnishing the inclusive persona that so many people find attractive, while producing policy details that prove that he is more than just a sweet-talking idealist.

For all the disappointment about her fund-raising, Mrs Clinton still remains the most likely Democratic champion. She is almost 20 points ahead of Mr Obama in the latest Gallup poll, and appeals much more strongly to blue-collar workers. Messrs Obama and Edwards are conveniently splitting the anti-Clinton vote. The Democratic Party has a long history of anti-establishment candidates, such as Eugene McCarthy and Gary Hart, who surged to prominence on talk of "new politics" only to collapse in confusion. But Mr Obama is as impressive an insurgent as the party has seen in years. And new-politics-toting insurgents do not always lose out to the establishment: just ask Bill Clinton.

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Human rights

Slaking a thirst for justice

Apr 12th 2007 | BUENOS AIRES AND SANTIAGO
From The Economist print edition

AFP

A generation later, in both Argentina and Chile, the courts are dealing with the perpetrators of past atrocities

Get article background

FOR the past 31 years, Viviana Díaz, a small, gentle woman now in her 50s, has devoted her life to finding out what happened to her father, Victor Díaz López, a former leader of Chile's Communist Party. Following the bloody coup against Salvador Allende's left-wing government in 1973, he became one of the military regime's most wanted men. After nearly three years in hiding, he was finally picked up by the DINA, the secret police of Chile's dictator, General Augusto Pinochet. His family never saw him again.

He was one of the many thousands who perished under the dictatorships that ruled many parts of Latin America in the final phase of the cold war in the 1970s and 1980s. A quarter of a century after the last successful military coup in Latin America, the region has moved on, with democracy for the most part firmly established. But in many countries, the past still poses some searching questions. Peace or justice? Retribution or reconciliation? Find the truth, however painful, or prefer the ease of forgetting?

Many argue for moving on rather than re-opening old wounds. Others reply that without justice there can be no healing and no guarantee of the rule of law. No group feels this more keenly than the relatives of the “disappeared”—those kidnapped by the state and taken to secret detention centres. Their tortured bodies, dumped in the sea or buried in unmarked graves, were rarely if ever found until well after the dictators departed. Unidentified remains are still turning up.

In most countries in the region where abuses occurred under authoritarian rule—Guatemala (where 200,000 died in a civil war between military dictatorships and left-wing guerrillas), Brazil, Mexico and Uruguay—the process of dealing with the crimes of the past has barely begun. To a lesser extent, that applies to El Salvador too (see article).

The process has gone furthest in Argentina and, especially, Chile. That marks a change. In Chile, some 3,000 people were killed or “disappeared” at the hands of Pinochet's regime. But the dictatorship's amnesty for its own crimes outlived it. Only recently have most families learned the fate of their loved ones.

Take Mr Díaz's case. His family learnt of his arrest through an anonymous phone call. Then silence. After four months of searching, Ms Díaz and her mother, a washerwoman, met a woman recently released

from Villa Grimaldi, a secret detention centre. She had a message for them from Marta Ugarte, another of the many communist leaders interned there. Ugarte's wrists had broken after she was strung up from the ceiling and her breasts were burned with a blow-lamp. She wanted them to know that neither she nor Mr Díaz would ever get out alive.

For years, Ms Díaz staged demonstrations, petitioned the pusillanimous courts and badgered officials. But she was met only with death threats, repeated arrest and continuing silence. When democracy returned to Chile in 1990, the government set up an independent inquiry into the “disappeared”. Even then, the perpetrators could not be brought to justice. It was not until Pinochet's arrest in London in 1998 in response to an extradition request from Spain, and the British House of Lords' rulings that he lacked immunity under international law, that Chile's judges began to grow much bolder.

In a series of landmark rulings, Chile's Supreme Court removed most of the obstacles to trying the dictatorship's crimes. In 1999 it declared “disappearances” to be a continuing crime until death is proved. That meant they were not covered by the 1978 amnesty. In December 2006 it ruled that because Chile was in a situation of internal conflict after the 1973 coup, the Geneva Conventions applied. Serious violations of those conventions were war crimes and crimes against humanity, for which a statute of limitations could never be invoked, it said. Nor could they be subject to amnesty, it ruled last month.

According to Chile's Interior Ministry, 148 people, including nearly 50 military officers, have already been convicted for human-rights violations during the 17-year dictatorship. Over 400 more, nearly all from the armed forces, have been indicted or are under investigation. Pinochet was himself facing trial on several charges, including murder, torture and tax evasion, when he died in December at the age of 91.

It was as a result of one of these investigations that Ms Díaz finally learnt of her father's fate. Last month a man known (because of his size) as “the Elephant”, who led the Lautaro brigade, a previously unknown elite unit of the DINA, tearfully confessed to murdering Victor Díaz at a barracks in Santiago in 1977 by asphyxiating him with a plastic bag, while cyanide was injected into his veins. His body, weighed down by a railway sleeper, was then thrown into the sea from a military helicopter. The truth, however painful, has brought her peace, says Ms Díaz.

Trials and tribulations in Argentina

In Argentina, at least 13,000 people (and perhaps as many as 30,000) “disappeared” or were killed during the military dictatorship of 1976-83. Unlike Chile's, Argentina's military regime collapsed in confusion, following defeat in the Falklands war. The first act of the democratic government of Raúl Alfonsín in 1983 was to annul the amnesty rushed through by the junta just before it fell. A truth commission—the world's first—provided the material for investigations by prosecutors, one of whom was Luis Moreno Ocampo, now chief prosecutor of the International Criminal Court in The Hague. Nearly 500 people, including nine members of the four successive juntas, were charged. Argentina thus became the first country to put its own military rulers on trial. The army argued that it had been forced to act by large-scale guerrilla violence. As in Chile, Argentina's military government had at first enjoyed considerable civilian support.

Repeated barracks rebellions in protest against the prosecutions forced Mr Alfonsín to buckle. He approved a “full-stop” law halting new investigations, followed by another of “due obedience” which exonerated those who claimed to have been following orders—a defence dismissed in the Nuremberg trials after the second world war. His successor, Carlos Menem, issued pardons to 277 of those already convicted or indicted, including nearly 40 generals and several guerrilla leaders.

Reuters

Argentines still argue about these pragmatic decisions. Public opinion was certainly against them, and the thirst for justice was huge. One crime was not covered by the various amnesties and pardons—that of taking away the babies of mothers who gave birth in captivity, and giving them to couples in the security forces to bring up as their own. The real mothers were then killed or “disappeared”. According to the “Grandmothers of the Plaza de Mayo”, who from 1977 demonstrated on the square of that name in Buenos Aires, some 500 babies were stolen in this way, only 87 of whom have so far been traced.

Pinochet's amnesty was unpicked

Pinochet's London arrest emboldened judges in Argentina too. Soon afterwards, General Jorge Videla, the junta president of 1976-81, was put on trial on charges of appropriating babies. For this, General Videla was sentenced to eight years imprisonment. He had already received a life sentence in 1985. His subsequent pardon was quashed by a judge last September on the ground that he was guilty of crimes against humanity and could never be pardoned. Because he is aged over 70, General Videla is now under house arrest.

In 2005 Argentina's Supreme Court annulled the “full-stop” and “due obedience” laws as being unconstitutional. That has paved the way for the prosecution of other junta crimes. Of the 772 people, nearly all in the military or secret police, now facing charges or investigations, 260 are in pre-trial detention (including 71 under house arrest), 46 are on bail, 41 are on the run, and 109 are dead, according to the Centre for Legal and Social Studies, a human-rights group. Five people have so far been convicted, including two on “disappearance” charges. The government expects another half-dozen trials to take place this year. Years of further trials lie ahead.

These prosecutions are backed both by the current Peronist president, Néstor Kirchner, whose government includes several former followers of the Montonero guerrillas, and by public opinion. Unlike armies in many other Latin American countries, the army in Argentina is no longer much respected. In opinion polls 70% of respondents approved of the court's annulment of the amnesty laws. No new prosecutions are being brought against former guerrillas. The government argues, with questionable logic, that they were not guilty of crimes against humanity and are thus subject to the statute of limitations.

AP

Viviana Díaz finally found truth

But prosecuting Isabel Perón, the third wife of Juan Perón, the country's revered populist leader, is a step too far for many Argentines. On Perón's death in 1975, Isabel, a former cabaret dancer, succeeded him. Amid growing economic chaos and violence between the guerrillas and right-wing death-squads, she signed decrees in 1975 authorising the eradication of all “subversive elements”. Some say that the Argentine Anti-communist Alliance (known as the “Triple A”), a government-backed death-squad, was responsible for at least 1,500 killings during her 20-month presidency.

Since her release from prison by the Argentine junta in 1981, Mrs Perón has lived in Spain. She claims ignorance of abuses during her rule. But in January she was arrested in Madrid at the request of an Argentine judge investigating the “disappearance” of a Peronist militant in February 1976. Four days later, a second warrant for her arrest was issued by another judge on charges relating to the “Triple A” killings. Aged 75 and said by her lawyers to be suffering from manic depression, Mrs Perón has been released on bail while awaiting the outcome of extradition proceedings. Few expect them to succeed.

As the experiences of Chile and Argentina show, each country has to find its own way of dealing with past atrocities in accordance with its own particular circumstances and history. Sometimes, it may take a whole generation for society to be ready to learn the truth, as in Germany after the second world war. At other times, an amnesty, which may later be unpicked or annulled, may help to secure peace.

The rise of international human-rights law has helped those who argue that in cases involving the worst crimes justice must never be sacrificed to peace. Where conflict continues that principle may be hard to apply. Its proponents say justice is essential not just as an end in itself but to deter future tyrants. Until recently, most could expect to get off scot-free. Increasingly, other countries may follow the road pioneered by Chile and Argentina.

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Venezuela

Scarcity amid abundance

Apr 12th 2007 | CARACAS
From The Economist print edition

Arguments over price controls

Get article background

ON THE last Saturday in March the broad Avenida Bolívar in the heart of Venezuela's capital was transformed into an open-air, government-run "mega-market". Shoppers, mainly from poorer parts of the city, formed orderly queues to buy food at officially regulated prices—something that is often impossible in ordinary shops. "How can there be scarcity in a country with so much land and resources?" asked Ramón Díaz, a pensioner, as he rested on a bench after doing his shopping. "Who controls the supply of meat? The oligarchy has it monopolised."

Who controls the food supply and why a fertile and oil-rich country should have problems getting food to its 27m people are questions that pit the leftist government of Hugo Chávez against much of the private sector. Venezuela has one of the world's highest inflation rates (see chart). Food prices are rising even faster than the overall index. That is despite—or because of—the fact that food, medicines and basic services have been subject to price controls since 2003. Meat, milk, black beans and sugar are among many products that, from time to time, disappear from the shelves—even those of Mercal, the government-run supermarket chain. Often, though, these goods can be found at much higher prices in the hands of street traders.

The government has a simple answer to the conundrum. "It's part of the curse of capitalism," according to Mr Chávez. In February he declared war on "hoarders and speculators", issuing a decree mandating jail sentences of up to six years for anyone interfering with food supplies. The government promptly seized a slaughterhouse and a cold-store.

Many businessmen and shopkeepers have a different view. They complain that controlled prices are set so low that they are obliged to sell at a loss. If they don't, they risk fines, temporary closure, expropriation or even imprisonment. In late March, for instance, the government temporarily closed 17 butchers' shops it accused of breaking price regulations. Mr Chávez has said that if he has to take over the entire food industry he will, although many Venezuelans doubt the government would be capable of running it.

Officials usually say that the problem is hoarding, not shortages. But Jorge Giordani, the planning minister, recently admitted that an overheating economy (it grew by over 10% last year) was causing inflation and scarcity. Public spending has doubled in the past two years. There are two other factors, says Pavel Gómez of IESA, a Caracas business school: the price controls themselves, which have boosted demand and cut supply, and an expectation that prices will rise further, leading people to bring forward purchases.

To make matters worse, the government recently curbed imports, ostensibly to protect local manufacturers. Some of them now complain that they cannot obtain the materials they need to make their products. Many businessmen are reluctant to invest, citing uncertainty over Mr Chávez's intentions and lack of legal protection. In which case, say government supporters, the state should step into the breach. Expect more shortages.

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Mexico and Central America

Countering Chávez

Apr 12th 2007 | MEXICO CITY
From The Economist print edition

An alliance that dares not speak its name

HE COMES from the same conservative party as Vicente Fox but in his first four months as Mexico's president Felipe Calderón has taken pains to distance himself from his predecessor. That may be because Mr Fox promised much but achieved little. So it was of note that this week Mr Calderón tried to breathe new life into the Plan Puebla-Panama, a moribund scheme of Mr Fox's aimed at helping Mexico's poorer south and the small and mainly poor countries of Central America.

The plan, launched in 2001, was supposed to involve investing $50 billion in infrastructure. According to Mr Calderón, only $4.5 billion has been spent, mainly on roads, modernising customs services and connecting the electricity grids of Mexico and Guatemala.

At a meeting in Campeche on April 10th, Mr Calderón and the Central American leaders formally relaunched the plan, but with some changes. One was the presence of Colombia's president, Álvaro Uribe. Another was a new emphasis on fighting the drug trade and organised crime, a growing problem in Mexico and Central America.

The unspoken premise was that Mexico and Colombia want to counter the influence in Central America of Venezuela's leftist president, Hugo Chávez. Nicaragua's president, Daniel Ortega, an ally of Mr Chávez, stayed away from Campeche, sending his vice-president instead. The leaders agreed to revive a plan to build an oil refinery in Central America. Mr Chávez has promised to build a refinery in Nicaragua.

There is unlikely to be sufficient demand for both refineries. But will either of them get built? Mr Chávez does not always fulfil his promises. Mexico had previously offered to supply its partners' refinery with 230,000 barrels per day (b/d) of oil, but Mr Calderón cut that to 80,000 b/d because of falling output in Mexico's oilfields. Colombia may help to make up the shortfall.

Jorge Castañeda, who was Mr Fox's foreign minister, says the original Plan Puebla-Panama failed because aid donors, such as the World Bank and Inter-American Development Bank, were reluctant to lend on a regional basis and because the United States did not get involved. That could now change, he thinks, because of concern in Washington about the hostile Mr Chávez's largesse and regional influence.

Mr Calderón seems to have quickly learned from Mr Uribe that not much is to be gained by criticising Mr Chávez in public. But in Campeche he talked of “cementing democratic values and practices”. The message seemed clear enough. The question is whether it will be backed up with money.

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Pakistan's militant drift

Taliban all over

Apr 12th 2007 | PESHAWAR
From The Economist print edition

AP

Amid a worrying surge in Islamic militancy, a fight between rival radicals may not be the good news Pakistan says it is

Get article background

IN PAKISTAN, more alarmingly even than usual, the flag of *jihad* is fluttering and extremists are marching on the state. Of several concurrent—partly co-ordinated—dramas involving Islamist militants, the bloodiest is in South Waziristan, a semi-autonomous tribal region on Pakistan's north-western frontier. In three weeks of high-altitude battle there between local Taliban and foreign—mostly Uzbek—Islamists, more than 250 foreigners are reported to have been killed. The army, which has failed to clear the foreigners from South Waziristan in four years of trying, announced on April 9th that the Talibs had done so. Yet quite why this fight began, whether it has ended, and what it means for Pakistan and the broader "war on terror" all remain unclear.

A less obscure struggle was launched in Islamabad on April 6th by a mullah named Abdul Aziz. He gave the government a month to close the capital's brothels and music shops, and tear down advertisements depicting women. He also declared *sharia* law within the high walls of his mosque and the adjoining *madrassa*. If the government were to respond with force, he promised it suicide-bombings. After hearing this sermon, Mr Aziz's followers, allegedly more than 10,000 bearded males and burqa-clad females, set fire in the street to a pyre of music videos and CDs extracted from local traders. The mosque, Lal Masjid, on the roof of which these young zealots can be seen practising martial moves with staves, is barely a mile from Pakistan's supreme court, parliament building and the headquarters of the Inter-Services Intelligence Agency (ISI).

For much of Pakistan's history, the ISI, the army's main spying outfit, has mobilised Islamists to fight its wars, in Afghanistan, Kashmir and elsewhere. This was consistent with a broader policy, pursued by successive—especially military—governments, of pandering to Islamists. Because it had made common cause with the fanatics, the army thought it could control them. If this were ever true, it is not now.

On March 29th a suicide-bomber killed one soldier and mutilated several others in an army compound in Kharian, 160km (100 miles) south-east of Islamabad. Two days earlier, five ISI officers were killed in a grenade attack in Bajaur, another of the seven tribal agencies (see map). The suicide blast was the eighth this year, including two in Islamabad, and all, says a senior intelligence official, were linked to militants in Waziristan.

The violence comes at a bad time for General Pervez Musharraf, Pakistan's uniformed president. Over the past month, he has faced rowdy strikes and protests from the country's black-coated lawyers, over a crude attempt to sack the country's top judge—an attempt, allege his opponents, to make sure any constitutional shenanigans escape judicial censure. In an election year these civilian opponents, whom the general has outwitted for a decade, scent blood. Two exiled leaders, Benazir Bhutto and Nawaz Sharif, are rallying their followers to the lawyers' protests. In all the fuss, sectarian bloodletting last week in Kurram, another tribal agency, barely merited a mention in the nation's press. Only 40 Sunnis and Shias were reported killed.

Not much more attention—in Pakistan at least—was paid to one of the first judgments of Mr Aziz's new *sharia* court—a *fatwa* issued on April 8th calling for the sacking and punishment of the tourism minister, Nilofar Bakhtiar. Her alleged crime was to have received an elated hug (a restrained pat on the back, she says) from a French paraglider after the pair completed a glide together in Paris. Besides promoting Pakistan as an ideal tourist destination, Ms Bakhtiar's stunt was supposed to draw attention to the plight of children orphaned by the earthquake in Kashmir and North-West Frontier Province (NWFP) in October 2005. Many, incidentally, are reported to have been taken in by *madrassas* such as Mr Aziz's.

Amid all this distressing news, the government is striving to present the fighting in South Waziristan as something positive. It describes it as local tribes recoiling against al-Qaeda-type militants in their midst. There may be some truth in this. But it is hard to celebrate a war that appears to have cemented the authority of a Taliban militia, modelled on Mullah Omar's Afghan original—over a swathe of the strategic border region, from which its fighters launch attacks on American and NATO troops in neighbouring Afghanistan.

At the least, the fighting may signal a definitive end to the army's own effort to purge the foreign militants. It has deployed 80,000 troops to the tribal areas, of whom some 700 have been killed. Seen locally as an invading army, this has inspired fanatical resistance, undermined the civil administration in Waziristan, and helped spread Taliban rule outside the tribal areas and into the NWFP itself. In the districts of Tank and Bannu, police posts have been abandoned and barbers sent packing. In another district, Malakand, a militant leader named Fazalullah, the son-in-law of a chieftain who sent thousands to Afghanistan to fight for the Taliban against America and its allies in 2001, is reported to be wandering on horseback, delivering Taliban edicts through a megaphone.

The army advanced into the tribal areas—for the first time in Pakistan's history—soon after America's 2001 invasion of Afghanistan. Coming the other way, thousands of Taliban and the foreign jihadists they had sheltered fled the superpower's bombs. It was a natural sanctuary. The Taliban were mostly Pushtuns, an ethnic group straddling the border, and included many Pakistanis, mostly from the tribal areas, and of these especially Wazirs.

This was partly a result of the ISI's support for the Taliban, and its ability to manipulate the Wazirs, who, with a predilection for *jihad* and a history of raiding Afghanistan, were not unwilling tools. Indeed, the pitiful deprivation of the tribal areas left them few better options.

Pakistan's normal writ does not extend to these areas; neither do its benefits. They are governed according to a British colonial model by a powerful bureaucrat called the political agent, who reports to the president. Acting through local elders, called *maliks*, the agent's single main charge is to keep the tribes in check. To that end, he can levy harsh collective punishments, such as demolishing houses or imprisoning

women and children. Wazirs call these powers the “black laws”. Interestingly, liberal Pakistanis refer to a raft of laws that discriminate against women and non-Muslims, introduced by General Zia ul-Haq, a former military dictator, Islamist and American ally, by the same name.

In the wilderness

So long as they do not upset the political agent, the tribes have been left to rule themselves—through *jirgas*, tribal councils, or, when they feel threatened and their jihadist blood is up, *sharia* courts. They are probably the most neglected Pakistanis. Waziristan has one hospital bed per 6,000 inhabitants, and a literacy rate of around 10%. More than 80% of males are educated in *madrassas* and girls not at all. Since 1997, residents of the tribal areas have been permitted to vote, but political parties may not campaign among them. Small wonder if they feel ambivalent towards Pakistan.

The tribal areas were also a second home for foreign militants. Many, including Osama bin Laden, learned their trade there during the anti-Soviet *jihad* in the 1980s. Anecdotes suggest that 300 al-Qaeda fighters, mostly Arabs, survived the group's last stand at Tora Bora, on the Afghan side of the border, and fled into Kurram. About 130 were swiftly arrested. Of the remainder—often called “core al-Qaeda”—there has been little sign. A handful of mid-rankers has been picked off by the Pakistanis, including a couple in or around the tribal areas. Last year, when Abu Musab al-Zarqawi, boss of al-Qaeda's franchise in Iraq, was killed, a document retrieved from his hideout suggested the group's leaders were in Waziristan. But since 2001 surprisingly few Arab jihadists have been encountered, willingly or otherwise, by Western soldiers in Afghanistan or by the Pakistanis next door.

The foreigners fighting in Waziristan are mostly Uzbeks, mainly from a hapless militant group, the Islamic Movement of Uzbekistan, which was chased into Afghanistan in the late 1990s. Among them is said to be a handful of Uighurs from Xinjiang in China and Chechens—allegedly including the staff of the Chechen embassy to Afghanistan under the Taliban. A few members of this job lot of jihadists, estimated at between 800 and 5,000 fighters, are reported to have been settled in Waziristan since the 1980s. Others have come since 2001, according to a Pakistani intelligence official, who claims to have interviewed a woman trafficked from Uzbekistan to become a jihadist's wife.

As the army fought its way into first South, then North, Waziristan in 2003-05, the Uzbeks allied with the Wazir and Mahsud tribes against it. The alliance was forged principally by a charismatic Wazir commander, Nek Muhammad, a veteran of battles against the Soviet forces and with the Taliban against their Afghan enemies. A long-haired, wild-eyed warrior, a type common in Wazir history, Nek Muhammad was killed by the army in 2004. It had signed a treaty with him shortly before, in effect giving his Pakistani Taliban the run of South Waziristan. Nek Muhammad's five senior commanders and one or two rivals have since been jostling for command, executing criminals and launching attacks into Afghanistan.

The latest fighting involving the Uzbeks is in part a product of this feuding. Two of the five commanders, who are all from the Wazir Yargulkhel tribe, have fought alongside the Uzbeks. They include Haji Omar, who until recently was considered Nek Muhammad's anointed successor. According to Brigadier Mahmood Shah, the army officer who drafted the deal with Nek Muhammad, Haji Omar's main weakness is a certain irascibility caused by a Soviet bullet lodged in his brain. This makes him a “wonky sort of chap”. The rival side, including most of the Yargulkhel, is led by another Taliban commander named Muhammad Nazir. By kicking out the foreigners, Mr Nazir plainly hopes to emerge as Nek Muhammad's unrivalled successor.

It would not be surprising if, as the government claims, Mr Nazir's campaign is popular. Wazirs are a xenophobic and conservative bunch. They are scandalised by some of their Uzbek guests, who drink alcohol, poach women, survive on banditry and are said to be loth to wage *jihad* in Afghanistan. The Uzbeks are also accused of the murder of 180 *maliks* in South Waziristan, which was the final blow for the local administration.

Talib v Talib

To fight the Uzbeks, Mr Nazir has received support, allegedly including airstrikes and artillery, from the army. There are some indications that his alleged victory augurs well. For example, several top-level Afghan Taliban, including a son of Jalaluddin Haqqani, a noted outlaw, are reported to have tried and failed to arrange a truce in South Waziristan. But it is also possible that America, which covers the cost of Pakistan's operations in the tribal areas, has in fact been paying for Mr Nazir's Taliban to kill Uzbek militants because of their reluctance to kill American troops.

If that were true, Pakistan would not mind unduly. Its priority is to wrest back a sort of control over the tribal areas. To that end, after the failure of its military operations, the government has in fact made several deals with the militants in a vain effort to buy their obedience. A pact in North Waziristan last September produced a similar result to that with Nek Muhammad. The militants rarely attack Pakistani troops there, partly because they are too busy pouring into Afghanistan. In February America's then top general in Afghanistan, Karl Eikenberry, claimed that cross-border attacks had risen threefold since that deal.

The fighting between Mr Nazir and the Uzbeks might suggest that Pakistan has abandoned such mollifying tactics in favour of time-honoured divide-and-rule. That would bring short-term gains, at best. It will not roll back the Taliban. That vast task will probably require massive economic development of the tribal areas and their incorporation into the regular Pakistani state. Indeed this has always been official policy. But, as so often in Pakistan, it has been blocked by vested interests: the army, which saw the tribal areas as its adventurist playground; elite bureaucrats, who coveted appointment as political agents, sometimes allegedly as a chance to make corrupt fortunes from taxing smugglers; and the mullahs, who are said to control more than 3,000 *madrassas* in the NWFP, well financed by Gulf countries.

In the absence of competition from the secular political parties, Islamic parties clean up the local vote in the tribal area. Typically, the government's chief negotiator with Mr Nazir is Fazlur Rahman, the Islamist leader of the parliamentary opposition. As so often, the general seems torn between unleashing reforms and falling prisoner to the vested interests. His instincts are for reform. Programmes to bring better health care and education to the tribal areas are already under way—America has contributed $38m to these since 2002 and promises more. Last year, moreover, a committee of Pushtun grandees—retired civil servants, judges and so forth—was told to find out what the tribals wanted. After holding *jirgas* across the tribal areas, these wise men reported that they wanted the black laws repealed, gradual recourse to the laws of the state and the same freedoms as other Pakistanis. For these sensible proposals General Musharraf has yet to show any enthusiasm.

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Bangladesh

Battered begums

Apr 12th 2007 | DELHI
From The Economist print edition

All the country's leading politicians are under attack

Get article background

THE dynasties that have dominated politics in Bangladesh since independence in 1971 are on the ropes. On April 11th Sheikh Hasina Wajed, former prime minister and leader of the Awami League, was charged over the murder of four people in political violence last October. Along with Sheikh Hasina, who is in America, dozens of associates have been charged. Khaleda Zia, prime minister until October 2006, and, with Sheikh Hasina, one of the “two begums” of Bangladesh, is reported to be under house arrest in Dhaka. Her son, accused of massive corruption, is in prison. Matiur Rahman Nizami, a former industry minister and leader of the Jamaat-e-Islami, the junior partner in the coalition led by Mrs Zia's Bangladesh Nationalist Party, has also been charged with involvement in violence.

If nothing else, the interim administration that took over with the army's backing when a state of emergency was imposed in January, means to prove its drive against corruption and violence is in earnest. The two begums were until recently seen as untouchable. It is widely believed prosecutors would not take action against them without the approval of the government, which seems determined to end their political careers.

In moving against almost the entire political class, the unelected caretaker regime has taken a big risk. Its taking power was popular—putting an end to violent campaigning and protests ahead of a scheduled election everyone expected to be fraudulent. It promised to clean up politics and prepare for a new election later this year. But the army chief, Moeen U Ahmed, has since expressed doubts about “elective democracy”. Many Bangladeshis have little sympathy for their political leaders. But they cherish their democratic rights. Usurping them may be the one way to make even the politicians look good.

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Kashmir

Lock up your daughters

Apr 12th 2007 | SRINAGAR
From The Economist print edition

Kashmir's Islamist puritans

Reuters

Andrabi pulls a face

"IF MY son would kill Mr Bush," says the burqa-wearing head of an all-female Islamist organisation, "it would be a great honour for Asiya Andrabi." Those who threaten the leader of the free world and refer to themselves in the third person tend to be crackpots or dictators. Asiya Andrabi may be a bit of both. But Dukhtaran-e-Millat (Daughters of the Faith), which she founded in Indian-administered Kashmir in 1981, is no joke. Older than al-Qaeda and the Taliban, Dukhtaran supports terrorists, and was banned by the Indian government from 1990 until 2004.

One consequence of the 17-year-old insurgency against Indian rule that still simmers in Kashmir is that the region's centuries-long tradition of a moderate, tolerant Islam with its roots in Sufi mysticism, has been under threat. Many liberal Kashmiris blame Pakistani-financed militant outfits for blurring Islam and nationalism, and trying to turn the conflict into a *jihad*. Throughout the 1990s militants tried to enforce moral rectitude, bullying local women, for example, into wearing burqas. They had limited success. But now the puritans are on the march. Last month, for instance, a furious mob beat up customers and smashed furniture in a hotel in Srinagar, accusing the owners of operating a sex ring. A week later conservatives forced the black-out of "vulgar" English-language cable-television channels.

The turning-point was an earlier sex scandal, which shocked Srinagar last year. Civil servants and policemen were linked to a prostitution ring in which teenage girls had been drugged and abducted to a brothel. The scandal prompted days of mass protests, and the torching of the home of the accused brothel-keeper.

Leading the campaign against licentiousness, Dukhtaran helped found a Forum Against Social Evils. Its burqa-wearing members wrecked beauty parlours and liquor shops, ransacked dimly-lit restaurants for encouraging smooching and celebrated Valentine's Day by burning cards. Their cause has been bolstered by the uncovering of two more "sex rings". In one, young women were lured by a fake charity. In another, policewomen were allegedly coerced by male superiors.

Yet Kashmir's liberal traditions are proving stubborn. Kashmiri women continue to pursue further studies, hold professional jobs and move about alone, some without headscarves. Shutting cinema halls has led to a boom in satellite dishes and video-rental shops. Progressive locals winkingly refer to Ms Andrabi as the "Angel of Death" and on the streets of Srinagar burqas and long beards are still rare.

"Islam came to Kashmir not by the sword but through teaching, preaching, Sufis and saints," points out Umar Farooq, a separatist politician and *mirwaiz*, a hereditary spiritual leader. "You can't threaten people with Islam," he argues. "You have to educate them." Dukhtaran, however, is trying to do just that. It runs 75 part-time *madrassas* in Kashmir.

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Timor-Leste

A half-built nation

Apr 12th 2007 | DILI AND MAHAQUIDAN
From The Economist print edition

An election season has begun peacefully but Timor-Leste will need years more babysitting from the UN

EPA

Peaceful polling, so far

A WHITE United Nations helicopter, piloted by Russians, touches down in Mahaquidan, a remote and drizzle-drenched spot in Timor-Leste's mountains. Out steps Atul Khare, the Indian diplomat who heads the country's UN peacekeeping mission. At the polling station, around 100 villagers queue patiently, shepherded by policemen from Singapore, Portugal and Namibia. As elsewhere this Easter Monday, April 9th, voting is going smoothly and turnout seems high. "*Parabéns*!" ("Congratulations!"), beams Mr Khare, before flying off to his next stop.

The whole world is on hand to help as the tiny, troubled country (formerly Indonesian-occupied East Timor) holds its first presidential election since independence in 2002. It is packed with soldiers, police, diplomats, election monitors and aid- workers from every corner of the globe. In the capital, Dili, constant patrols by the UN's Australian-led peacekeeping force ensure that clashes between political factions, which flared up during campaigning, are absent on election day.

Timor-Leste gave the UN its first chance to play midwife at the birth of a brand-new country. If nation-building cannot succeed in such a small and relatively homogeneous spot, it will have little chance in bigger and more complex places such as Afghanistan and Congo. Easter Monday's incident-free polling, in which the Timorese had a choice of eight candidates, suggests that the enormous care lavished on the country might pay off. However, many doubts remain.

In May last year, after the UN had scaled down its operations, the country descended again into violence and its army and police collapsed, prompting the dispatch of fresh peacekeepers. The prime minister at the time, Mari Alkatiri, invited the chaos by sacking almost half of the army for going on strike. The striking soldiers, mainly from the country's west, had complained of discrimination by their commanders, mostly from the east. The UN was accused of having planted the seeds of this conflict by mishandling the integration of former rebel fighters and pro-Indonesian militias into the new country's security forces, though the clash was fuelled by rival politicians, exploiting the rifts for their own ends. General disorder followed, including clashes in Dili between easterners and westerners.

The present campaign for the influential but largely ceremonial presidency has only widened the rift that underlies all of this: that between Mr Alkatiri's Fretilin, which had been the independence movement's political wing, and Xanana Gusmão, the current president, who was its military leader. After last year's violence, Mr Alkatiri was forced to resign as prime minister and was replaced by an ally of Mr Gusmão's, José Ramos-Horta, who jointly won the Nobel peace prize for his efforts as the independence movement's

chief international spokesman.

Mr Gusmão now plans a job-swap. While backing Mr Ramos-Horta's bid for president, he will seek the prime ministership, under the banner of a new political party, in a parliamentary election in June. Preliminary results from Easter Monday's presidential vote put Mr Ramos-Horta second, with 23%, while Fretilin's Francisco Guterres (known during the resistance as “Lu-Olo”) came first with 29%. Mr Ramos-Horta thinks he will still win the run-off next month, because most of the eliminated candidates' voters will switch to him. Mr Guterres's advisers think many Fretilin supporters abstained this time, and that their man will win if they can be persuaded to vote in the second round.

Big oil and gas deposits found in the seas between Timor-Leste and Australia mean that the new nation is no longer poor. Mr Ramos-Horta says Fretilin's over-cautious and insular government has let more than $1 billion of oil revenues stack up in its accounts, while a population of fewer than 1m still suffers widespread poverty, child malnutrition and unemployment. Tens of thousands who fled last year's fighting are living in tents in refugee camps. Fretilin had intended to spend more heavily last year but the violence thwarted its plans. Once Mr Ramos-Horta became prime minister, cohabiting in government with Fretilin, it was reluctant to increase aid in case he took the credit.

Whereas the government has spent little, the UN has splashed out over $3 billion since arriving in 1999. But this largesse has left few visible signs, save at the UN's huge base in Dili, where construction continues apace, suggesting that the world body is digging in for the long term. The capital is still littered with rotting buildings, abandoned in various rounds of violence.

The presidential candidates all pledged before the election to accept its outcome. But five losing candidates have jointly accused Fretilin of intimidation and possible vote-tampering, threatening to reject the result unless there is a public recount. Mr Ramos-Horta says the official turnout figure—around 70%, despite the queues seen at polling stations—is suspiciously low. Fretilin retorts that its supporters were the main victims in pre-election clashes.

Fretilin's opponents fear that it might be a sore loser and cause trouble if Mr Guterres does not win. But worse might come if Fretilin does win the presidential or parliamentary election: the soldiers it sacked are hiding in the hills, angry and, in some cases, armed. The UN's hordes of experts have made huge efforts to nurture democracy and build strong institutions in Timor-Leste. But it still seems as if one stiff gust of wind could blow it all away.

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Kyrgyzstan

Wilting tulips

Apr 12th 2007 | ALMATY
From The Economist print edition

Two years after the last one, is it time for another revolution?

BISHKEK, Kyrgyzstan's capital, has seen it all before. Ever since the “tulip revolution”, when Askar Akaev, the authoritarian former president, was chased out of office by street protesters two years ago, the country has been in permanent political tumult. Anti-government demonstrations follow the same pattern: tents are erected in front of the president's office, the White House; the organisers bus in protesters from their home regions and feed and water them; some, the so-called “rental pickets”, are also paid for their time—causing quite a few old-guard Kyrgyzstanis to observe sourly that, since the tulip revolution, too many of their compatriots have forgotten the real meaning of a day's work.

The protesters—more than 10,000 of them—who gathered in the centre of Bishkek on April 11th, however, seem to have been genuine. They were there to lend weight to the call by Kyrgyzstan's opposition parties for Kurmanbek Bakiev, the president, who was swept into power in March 2005, to step down, hold early presidential elections and amend the constitution. The leading light behind this week's rally was Mr Bakiev's former ally and prime minister until last December, Felix Kulov. In February Mr Kulov set up a new opposition movement, with a splendidly inclusive name: the United Front for a Worthy Future for Kyrgyzstan. He and his supporters want to return to a short-lived constitution adopted only last November after a week of street protest. It curtailed the president's extensive powers in favour of parliament. But Mr Bakiev managed to undo most of the changes a month later. In the process, Mr Kulov lost his job.

Mr Bakiev has failed to fulfil his promises of democratic reform. Instead, he has replaced rule by his predecessor's family with rule by his own. This has caused widespread resentment. On his watch, corruption is believed to have become even more entrenched. Unemployment remains high. At least 500,000 Kyrgyzstanis out of a population of just over 5m have left the country to find work, mainly in Russia and Kazakhstan.

However, Mr Kulov, a political prisoner under Mr Akaev, has also lost some credibility for failing to back the opposition in its campaign last autumn for constitutional reform. Some are cynical about his motives in turning against Mr Bakiev, joining the opposition and organising this week's mass protest. Adding to his difficulties, Mr Bakiev is an astute politician at his best under pressure. Late last month he appointed a moderate opposition politician, Almaz Atambaev, as his prime minister, and told him to form a coalition government. On the eve of the protests, he also submitted to parliament the draft of a new constitution designed to distribute power more evenly between the executive and legislative branches. This, he hoped, would scupper the rally.

Mr Atambaev, the new prime minister, has formed his government and said he would like another member of the opposition to fill the still vacant post of first deputy prime minister. So far, no one has nibbled at this bait. The rally has been declared open-ended, until all the opposition's demands are met. Mr Kulov seems in no mood for compromise.

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China's tax system

Return to sender

Apr 12th 2007 | BEIJING
From The Economist print edition

In China death is certain but taxes often optional

THE well-to-do in China have snubbed their government. This year for the first time, anyone earning more than 120,000 yuan ($15,500) annually is supposed to file a personal income-tax return. Yet by the deadline of April 2nd (extended by a couple of days because of low compliance), only a small minority had done so. Threats of massive fines have gone unheeded.

The government's embarrassment was evident when it missed its own deadline of April 10th for announcing the total tally of tax returns completed. But officials have estimated the number is around 1.6m. The number of those required to file is widely reported to be 6m-7m and could well be much higher. Those who have done so already are mostly wage-earners who have tax deducted from their salaries and feel they have no option but to report their incomes because they are already in the tax authorities' records.

A big difficulty for tax officials is that even some of the government's own media have broken ranks and suggested that the middle classes' obvious disdain for the new requirement may not be unreasonable. Confusingly, the annual tax return does not supersede an existing monthly requirement to report and pay tax on non-taxed income if total earnings exceed a certain threshold. A newspaper run by the state prosecutor's office argued that the tax administration had no legal authority to fine people for failing to fill out returns relating to income on which they had already paid tax.

But very few bother to pay personal income tax unless it is deducted automatically. As some Chinese newspapers have pointed out, this is partly because many Chinese believe they get little in return for their taxes. They have to pay through the nose for health care and for decent education for their children. They are also resentful that few officials pay tax, even though many have big incomes from shady dealings.

Even the words “no taxation without representation” have found their way into print, in an article in the *Information Times*, a government-owned newspaper in the southern city of Guangzhou. Noting that half of the delegates to China's legislature were officials, the newspaper reported that commentators had pointed out that the parliament should have “fewer officials and more taxpayers”: an interesting distinction suggesting the taxman has struck a raw nerve.

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Terror in the Maghreb

The long arm of al-Qaeda

Apr 12th 2007 | ALGIERS
From The Economist print edition

Reuters

Are the latest terrorist bombs in north Africa home-grown, inspired by al-Qaeda or actually organised by it?

Get article background

THE bombs that shook Algiers and ripped the façade off the prime minister's office this week, killing some 30 people, suggest a worrying resurgence of the country's Islamist militants since they rebranded themselves as al-Qaeda's official arm in the Maghreb. This week's counter-attack on bombers in Morocco raises similar questions. But they were probably different sorts of terrorists. There is no presumption yet that al-Qaeda has effectively activated a joint north African front, though it would surely like to do so.

It is the first time in years that Algeria's capital has been attacked on such a scale. Earlier this year there were terrorist shootings in Tunisia. In Morocco this week four suicide bombers died in Casablanca as they were cornered by security forces, while several other terrorist plots in Europe have been linked to north African militants. America worries that the vast ungoverned spaces of the Sahara desert could provide sanctuary for jihadists.

For the moment, the biggest danger is in Algeria, where militants have been hardened in a brutal insurgency following an Islamist election victory in 1991 annulled by the army; at least 100,000 people were killed before the civil war dwindled, but did not entirely die out, after 1999. The Salafist Group for Preaching and Combat, better known by its French acronym, the GSPC, emerged at the insurgency's forefront. But it has been hard hit by Algeria's security forces and by losing fighters thanks to government amnesties.

The group has long allied itself to al-Qaeda, but last autumn it announced a formal merger with it. On the anniversary of the September 11th attacks on America, Ayman al-Zawahiri, al-Qaeda's deputy leader, declared that the union would be a “thorn in the neck of the American and French Crusaders and their allies”. In January, the GSPC renamed itself the al-Qaeda Organisation in the Islamic Maghreb, echoing what the late Abu Musab al-Zarqawi called his terrorist group in Iraq.

There have been rumours that the Libyan Islamic Fighting Group, another al-Qaeda ally, is set to join the union. But Western monitors say this is causing a rift between those wanting to fight Muammar Qaddafi's regime and exiles hiding in Pakistan who want to join al-Qaeda at large.

Is all this just propaganda to revive the flagging spirits of north African insurgents, or the opening of a new front in the global *jihad*? Two bomb attacks against foreign oil workers in Algeria hint that the group

has adopted the al-Qaeda policy of killing foreigners. But this week's bombings in Algiers are more in keeping with the GSPC's tradition of hitting the Algerian state.

Still, some of al-Qaeda's methods are evident: the seven near-simultaneous bombs against security forces in February, and this week's apparent use of suicide-bombers, a rare tactic in Algeria. Many north Africans have joined Iraq's insurgency; veterans are apparently returning to wage *jihad* at home or in Europe.

The jihadists stirring next door in Morocco so far seem less proficient than their Algerian cousins. Last year King Muhammad ended military conscription and reorganised much of his security apparatus after Islamists infiltrated his armed forces. The trial of 50 people accused of trying to overthrow the monarchy is due to begin in May. Separately, security forces have been unravelling a web of militants said to have been planning suicide-bomb attacks on foreign ships, hotels and police buildings.

The police got a lucky break last month, when the group's suspected leader got into a row with the owner of an internet café in Casablanca who apparently objected to him reading jihadist web sites, locked the door and tried to call the police. In the following weeks, police arrested 24 suspects.

Then, early on April 10th, they surrounded a safe house in the city. One man blew himself up in what witnesses said was a cloud of red mist while a second was shot dead as he fumbled with his suicide belt. Two others who escaped later blew themselves up. The gang leader and several of those arrested had been freed from prison under a pardon in 2005 after being jailed following a wave of suicide-bombings that killed 45 people in 2003.

Morocco's communications minister says the bombers did not seem to have external links. “It really appears to be an amateur group, since the explosives we found on them and in the caches we discovered were basic and home-made, from household items.”

Maybe so. The scale of al-Qaeda's involvement in the Maghreb is still uncertain. And though its ideology of waging *jihad* against the West appeals strongly to some, the al-Qaeda bombing of Arab civilian targets—for instance, in Jordan in 2005—has stirred widespread local revulsion. Will it do the same in the Maghreb?

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Iraq

Most turbulent and puzzling of priests

Apr 12th 2007 | BAGHDAD
From The Economist print edition

Muqtada al-Sadr drops out of sight but stirs anti-American fervour

Getty Images

Americans go home

Get article background

THEY seek him here; they seek him there. It has been months since Muqtada al-Sadr, Iraq's most capricious and now perhaps its most powerful Shia clergyman, has been seen in public. At dinner tables in Baghdad's heavily-protected Green Zone, where many of Iraq's governing elite hunker down alongside their American mentors, guessing his whereabouts has become a bit of a game.

A favoured explanation is that Mr Sadr slipped across the border to Iran, along with senior commanders of his Mahdi Army militia, at the beginning of February, to avoid being targeted in the Baghdad security drive—President George Bush's vaunted "surge"—that was just starting. Another has it that he and his gunmen are simply lying low in the capital, while the Americans try to cleanse its more volatile districts of Sunni insurgents.

Some go as far as to suggest that Mr Sadr is exploiting the cult-like devotion he inspires among his legion of mainly young and poor Shia followers to evoke the image of the Shias' "hidden imam" whose reappearance on earth is supposed to herald an era of peace and justice. Indeed, it is not hard to find people in Mr Sadr's flock who say he is actually the Imam al-Mahdi himself, the Shias' 12th and last leader, who was "occultated" into thin air in 939AD and is due one day to reappear.

In any event, Mr Sadr's many rivals and enemies had been rubbing their hands at reports that in his current absence his movement was breaking up. Though Mr Sadr seems to have reined in most of his trigger-happy gunmen, American and Iraqi forces are still hunting them down as part of the surge and have rounded up a clutch of his top men. This week in the southern city of Diwaniyah, Sadrist militiamen fought a fierce but futile rearguard battle, as American and Iraqi tanks rolled into the town to reassert their authority.

Meanwhile, Mr Sadr's parliamentary block, which is the biggest in the governing Shia alliance, with six ministries (including transport and health), is embroiled in its own rows. The prime minister, Nuri al-Maliki, who hails from the rival Dawa party but owes his position to the Sadrists' backing when his government was formed, has threatened a reshuffle that might lessen their stature. And some Shias blame the Sadrists for causing the Fadhila party, which competes with Mr Sadr's lot for control of Basra, Iraq's biggest southern city, to defect from the ruling alliance.

Wherever he is, Mr Sadr has been far from idle. This week he orchestrated a resounding comeback, even if he was still physically absent. He broke his silence with a spate of anti-American proclamations urging

his fighters to intensify their struggle to oust American forces and telling Iraq's army and police to work together to defeat “the arch-enemy”. Hundreds of thousands of his adherents (more than a million, say his devotees) then staged a peaceful protest rally, marching between the Shias' holy cities of Kufa and Najaf. Marking the fourth anniversary of Saddam Hussein's fall, they demanded the immediate withdrawal of American troops.

We are all Iraqis now

Their emphasis was more on getting the Americans out than on asserting Shia superiority over their Sunni compatriots. The militiamen were told to change their trademark black warriors' outfit for civilian garb, to leave their guns at home, and to avoid inflaming sectarian passions. Instead of waving pictures of Mr Sadr or his revered late father, the marchers draped themselves in the Iraqi flag. “Yes to Iraq, yes to sovereignty, no to occupation,” they shouted, pumping fists and waving the national flag. Some of the armed policemen lining the route joined in.

Sunni as well as turbaned Shia clerics walked at the head of the huge parade, to make it look national rather than sectarian. Once it reached Najaf, the marchers flocked to the shrine of Imam Ali, where they were treated to another missive from Mr Sadr, again projecting himself as a voice for all Iraqis. “Every day tens are martyred and crippled. Every day we see and hear American interference in every aspect of our lives, which means we are neither sovereign, nor independent nor free,” declared the clergyman in a letter read out by an aide. “This is what Iraq has harvested from the American invasion.”

While the crowd was stirred by the anti-American outpouring, Mr Sadr's message may have been directed more at Mr Maliki, to remind him that the Sadrist base is intact and that no other group, bar the Kurds, can mobilise such wide support. Several Sadrist government ministers then threatened to resign in protest against Mr Maliki's apparent failure to spell out a clear timetable for America's withdrawal. If the entire Sadrist block were to turn against the government, it might even fall.

So far, Mr Maliki has refused to kow-tow. “We see no need for a withdrawal timetable,” he said during a visit this week to Japan. “We are working as fast as we can.” “Achievements on the ground” would determine how long American troops remained.

This, the Sadrists furiously responded, was not good enough. Mr Maliki, they said, was defying the Iraqi people's will. They also vented their anger over the Baghdad surge, calling it “unfair”, since it targeted the Shia militias, who had been co-operating, while letting Sunni insurgents go on bombing Shia civilians.

Mr Sadr's next move is as big a conundrum as his whereabouts. Will he truly let his adherents risk bringing down the Shia-led government? Will he declare all-out war on the Americans? And will he let his Shia militias resume their murderous sectarian onslaught against so-called Sunni extremists? Without hearing it from the mouth of the man himself, it is hard to say.

Meanwhile, one voice, previously deemed the most influential in the land, has remained quiet: that of Grand Ayatollah Ali al-Sistani, hitherto regarded as by far the most respected of Iraq's Shia clergymen. In the past few months, he has been notably absent from public life (some suspect he is ill), bar an apparent but unclear intervention to stop the government from allowing more people from Saddam's Baath party back into public office. Until sectarian strife broke out with unprecedented ferocity a year ago, Mr Sistani had been credited with restraining the Shias from perpetrating revenge attacks after mass bombings by Sunni insurgents. He has sincerely urged national reconciliation. If Mr Sadr has truly eclipsed the older man, Iraq may get even bloodier.

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Israel and Palestine

The variable price of freedom

Apr 12th 2007 | JERUSALEM
From The Economist print edition

The details and possible consequences of a prisoner swap are still murky

Reuters

Could Marwan Barghouti be freed too?

SINCE Palestinian fighters captured Gilad Shalit, an Israeli soldier, in a raid across the Gaza Strip's border nine months ago, rumours that a deal for his release was imminent have endlessly buzzed around. This week, at last, they sounded serious. Israel confirmed that Corporal Shalit's kidnappers, led by a group from the Izz ad-Din al-Qassam Brigades (the armed wing of Hamas, the Islamist movement which leads the Palestinian government), had passed on a list of prisoners they want to exchange for him.

The two sides have apparently agreed to the outline of a deal. The soldier would be swapped for 1,400 jailed Palestinians in three tranches: one before he is handed over to Egypt, which has been mediating all along; the second before Egypt delivers him to Israel; and the third afterwards.

The devil is in the details. Israel has agreed to several such swaps in the past, but never at so high a price. The last time, in 2004, in a deal with Lebanon's Hizbullah militants, it gave up 430 Palestinian and other Arab prisoners for a kidnapped Israeli businessman and the bodies of three Israeli soldiers. What is more, Hamas's wish-list includes many men (and a few women) with "blood on their hands", a category that Israel decided four years ago never to release in hostage deals. The government may, however, be considering narrowing that definition, which currently includes people who helped plan terrorist attacks, including failed ones.

That might allow it to free Marwan Barghouti, who is said to head the kidnappers' wish list. The leading light of the Fatah party's younger generation, Mr Barghouti, sometimes called "the Palestinian Nelson Mandela", is popular; many non-Fatah supporters respect him. Before his jailing for planning attacks that killed five people in the second Palestinian *intifada*, he was a favourite of Israeli peace activists.

Some still think he is the one leader capable of ending the factional struggles that have raged since Hamas ousted Fatah in last year's election, and thus of being an effective partner for peace talks. (Though the parties formed a coalition government last month, low-level clashes continue.) One Israeli minister argued earlier this year that now was the time to let him go.

But doing that would require an Israeli presidential pardon, which the government cannot guarantee. And besides being politically explosive, the idea has heavyweight opponents. Yuval Diskin, head of the Shabak, Israel's domestic security service, whose opinion in these matters carries the most professional weight, calls Mr Barghouti "an extremist, the man mainly responsible for starting the last *intifada*", and says he will be "a real problem for Abu Mazen [better known as Mahmoud Abbas, the Palestinian president] and other possible moderates" in Fatah if freed.

His release would affect Palestinian politics in other ways too. Mr Barghouti's stature is not that of Mr Mandela's, and rivals within Fatah itself, let alone outside, will try to undermine him once he is out. Moreover, Hamas would get the credit for springing Mr Barghouti from jail, weakening Fatah further. Some, indeed, suspect that the very fact that Hamas is pushing for his release means he has moved closer to it. All these things will make Israel, whose goal is to weaken Hamas, reluctant to let him go now. On the other hand, there may never be a "right time": if Israel releases him on its own timetable, that could fuel Palestinian suspicions that he struck a deal, undermining his street credibility.

In any case, the kidnappers' list has men with far more blood on their hands than Mr Barghouti. Whittling

it down to something Israel can live with will take time. And when Corporal Shalit is at last safely home, that will only force Israel's prime minister, Ehud Olmert, to face a question he has successfully avoided for a while: where next in the peace process?

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Egypt

Bloggers may be the real opposition

Apr 12th 2007 | CAIRO
From The Economist print edition

How the authorities are being nettled

THEY call themselves *pyjamahideen*. Instead of galloping off to fight holy wars, they stay at home, meaning, often as not, in their parents' houses, and clatter about computer keyboards. Their activity is not as explosive as the self-styled jihadists who trouble regimes in the region, and they come in all stripes, secular liberal as well as radical Islamist. But like Gulliver's Lilliputians, youthful denizens of the internet are chipping away at the overweening dominance of Arab governments.

In Egypt, for instance, blogging has evolved within the past year from a narcissistic parlour sport to a shaper of the political agenda. By simply posting embarrassing video footage, small-time bloggers have blown open scandals over such issues as torture and women's harassment on the streets of Cairo. No comment was needed to air widespread disillusionment with last month's referendum to approve constitutional changes, after numerous Egyptian websites broadcast scanned images of a letter from one provincial governor to junior bureaucrats, ordering them to vote yes. (The government claimed a 27% turnout, with three-quarters approving; critics claim fewer than 5% voted.)

The Muslim Brotherhood, Egypt's main Islamist group and most powerful opposition force, has countered a recent government crackdown not with street protests, but far more effectively with a web-based campaign to help its arrested members. More playfully subversive, an anonymous blogger has drawn a rave following for his spoof version of Egyptian politics, which pictures the country as a village ruled by an ageing headman. Through overblown praise of this exalted leader, and of his plans for his son to inherit the post, the blogger runs mocking circles around the suspected ambitions of Egypt's 78-year-old president, Hosni Mubarak.

Such pinpricks have yet to puncture the dominance of any Arab state. But with internet access spreading even to remote and impoverished villages, and with much of its “user-generated content” pitched in pithy everyday speech rather than the high classical Arabic of official commentary, the authorities are beginning to take notice. In February, an obliging Egyptian court fired a shot across the bows of would-be web dissidents by sentencing 22-year-old Abdelkarim Suleiman to four years in jail. A law student in Alexandria, he had strayed by penning bitter critiques of Egypt's main centre of Islamic learning, al-Azhar university, and of Mr Mubarak, and posting them on his personal blog.

Bahrain, another country that hides authoritarian rule behind a veneer of democratic practice, has taken to summoning bloggers for questioning, and tries to make them register with the police. Saudi Arabia, which blocks thousands of websites, has silenced many web critics with quiet warnings. Syria's most prominent web activist, who runs a news service reporting opposition, as well as government views, recently quit the country for similar reasons. But like the controversial opinions of Mr Suleiman, the Alexandria blogger, the real story of what goes on in Syria is still on the web, for anyone inclined to find it.

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Ethiopia

Justice, of sorts

Apr 12th 2007 | NAIROBI
From The Economist print edition

Some political prisoners have been freed but many more are still in jail

AN ETHIOPIAN federal court judge surprised everyone this week by throwing out the charges of genocide and treason brought against opposition politicians and their allies arising from the violent protests against the general-election results of 2005. The clemency was not all it appeared, but it is good news all the same.

Twenty-five of the 100 or more suspects were freed from prison immediately, most of them journalists and publishers. However, opposition leaders, including Berhanu Nega and Hailu Shawel, remain behind bars. They now face separate charges of attempting to overthrow the government of President Meles Zenawi through the street protests that led to the deaths of at least 193 civilians and six policemen after the flawed election. An independent inquiry collapsed when several of its judges fled abroad, citing threats and government attempts at a cover-up.

Human-rights groups are heartened by the judge's decision but point out that the remaining charges still carry the possibility of a death sentence or life in prison. Opposition supporters are divided. Some think their leaders should now defend the charges, which they have so far refused to do. The verdict will relieve foreign diplomats in Addis Ababa, the capital; they have been tying themselves in knots to defend the failings of a government that is one of their largest recipients of aid.

This is particularly true of the United States. Despite the misgivings of some congressmen, who think Mr Meles a dictator, some in the Bush administration see “Christian” Ethiopia (where half the people are in fact Muslim) as a bulwark against Islamist expansion in the Horn of Africa. Proof of that came to light recently with the embarrassing revelation that Ethiopia had been allowed to buy arms from North Korea, despite the UN sanctions against that country that America had insisted on.

The Americans were also indirectly involved in the detention of 41 “terror suspects” in Ethiopian prisons after the rout of Islamist forces in Somalia in January. The Ethiopians, who led the war against the Islamists, say the prisoners were not held secretly and that they had consular and legal representation. But they do admit that American and other foreign intelligence agents interrogated some of them; most of them are now due to be released.

So where are the terrorists who were supposed to have been rounded up after the fall of Somalia's Islamists? Ethiopia is still embroiled in Somalia. Some Somalis say that last week's fighting in Mogadishu, their capital, caused more than 1,000 deaths. But no al-Qaeda people or Somali jihadists were reported killed or captured. Bad news for Ethiopia—and by extension America.

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Africa and homosexuality

In denial

Apr 12th 2007 | NAIROBI
From The Economist print edition

Anglican divisions are a reminder that homophobia in Africa is still the norm

IN A nice twist of missionary history, several of America's oldest and richest Anglican parishes now claim to be under the authority of African bishops. The issue that has led them to renounce their own national leadership is homosexuality; some of the minority of Anglicans (or Episcopalians) who object to gay bishops in American dioceses are aligning with conservatives in Africa.

The most influential is Archbishop Peter Akinola, who leads the 17m-strong Anglican church in Nigeria, as well as his new congregants in Virginia. His hostility to homosexuality may reflect mainstream African opinion, but he is pragmatic too. His conservative reading of the Bible helps protect his Anglican flank against the fast-growing Pentecostalists. It also seeks common ground with Nigeria's homophobic Muslims.

Most African leaders still frown on homosexuality. Several call it “subhuman” and “un-African”. Zimbabwe's Robert Mugabe has called homosexuals “worse than dogs and pigs”. The late J.M. Kariuki, a Kenyan populist MP, called homosexuality “that vice for which we Africans have no name”. Such views help ridicule African homosexuals and hamper the fight against AIDS, albeit a scourge transmitted mainly heterosexually in Africa.

It is hard to tell how many active homosexuals there are in Africa: the International Lesbian and Gay Association, a Brussels-based lobby, guesses there are more than 24m in a continent-wide populace of 900m-plus. Some are beginning to speak up, challenging a widespread notion that homosexuality was brought in by foreigners.

Africa's Anglican clergymen get little education in sexuality. Some preach abstinence yet turn a blind eye to polygamous marriages, adultery and genital mutilation. Christopher Senyonjo, a retired Anglican bishop in Uganda, is one of only a small number of African Anglicans who challenge the conservatives. The hounding of homosexuals, he says, is the “opposite of Christlike”.

As Africans become more urban and cosmopolitan, will their views soften? If the consensus on homosexuals becomes gentler, other “invisible” Africans, notably the disabled and the mad, who are often abandoned or tucked away out of sight at home, may be treated better too.

Only South Africa's Anglicans, who played a big part in combating apartheid, offer some sort of counterbalance. The church there has spoken up for homosexual rights. The government has legalised same-sex marriage. But campaigners say that South African lesbians are now being targeted by homophobic men—and sometimes even gang-raped.

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European energy security

A bear at the throat

Apr 12th 2007 | BRUSSELS AND MOSCOW
From The Economist print edition

Kevin Kallaugher

The European Union is belatedly grasping the riskiness of its dependence on Russian gas, but it is disunited and short of ideas for how to reduce it

RUSSIA'S president, Vladimir Putin, must be feeling smug. His strategy of using the country's vast natural resources to restore the greatness lost after the break-up of the Soviet Union seems to be paying off. If power is measured by the fear instilled in others—as many Russians believe—he is certainly winning.

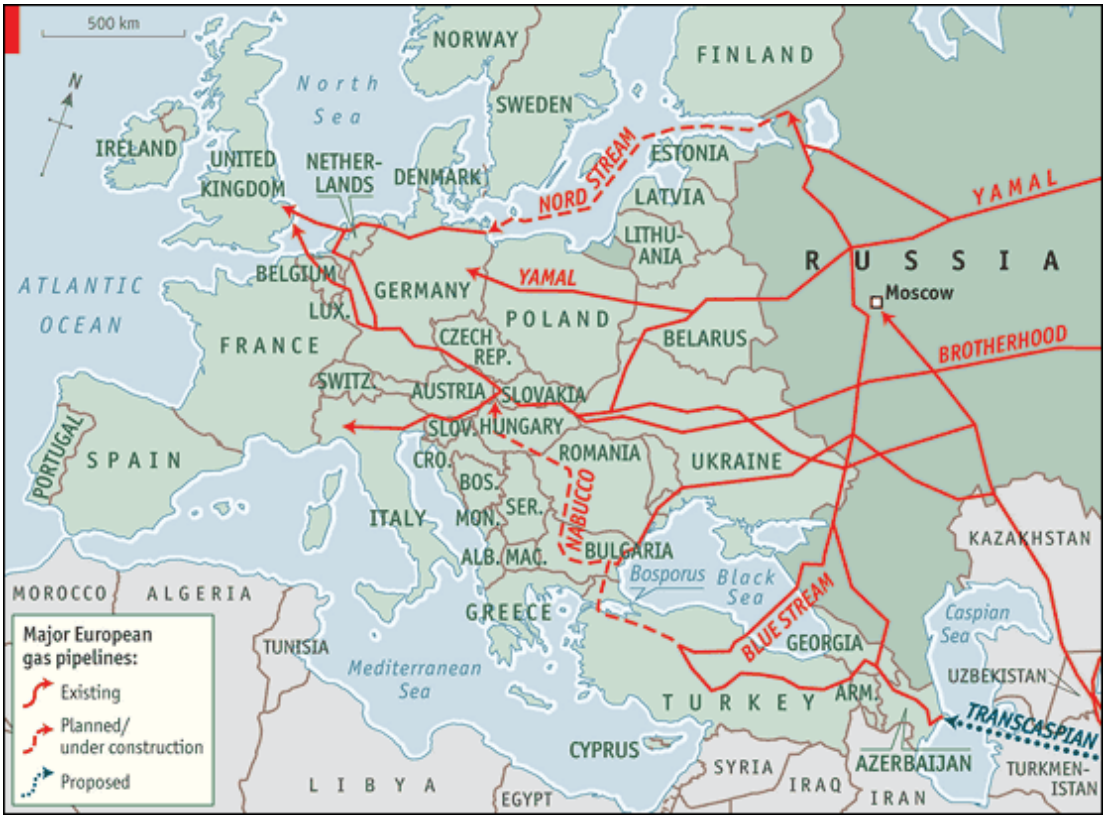
The Soviet Union relied on its military machine for geopolitical power: its oil and gas were just a way to pay for it. In today's Russia, energy is itself the tool of influence. To use it the Kremlin needs three things: control over Russian energy reserves and production, control over the pipelines snaking across its territory and that of its neighbours, and long-term contracts with European customers that are hard to break. All three are in place. For all the talk of a common strategy towards Russia, the EU is divided and stuck for an answer.

Gazprom, Russia's energy giant, cherished by Mr Putin as a “powerful lever of economic and political influence in the world”, has long-term supply contracts with most European countries, including France, Germany, Italy and Austria. It also has direct access to these countries' domestic markets. The EU reckons that half its gas imports now come from Russia. Newer EU members, such as Hungary and the Czech Republic, are almost entirely dependent on Russian gas. Moreover, a pipeline network that it inherited from the Soviet Union gives Russia control over gas imported from Central Asia.

The EU has few ideas for how to deal with its chief energy supplier. “We know we should do something about Russia, but we don't know what,” one Brussels official says. “In the EU we negotiate on the rules, whereas Russia wants to do deals.” The deals are coming thick and fast. Last month, Russia secured one to build an oil pipeline from Bulgaria to Greece that will bypass the Bosporus. Symbolically, it will be the first Russian-controlled pipeline on EU territory. The pipeline will carry Russian and Central Asian oil straight to the EU, avoiding Turkey.

Oil can at least be bought from elsewhere. The bigger worry is about the EU's dependence on Russian gas. The flow of natural gas depends on the routes and control of pipelines, as European consumers were reminded when Russia switched off the gas supply to Ukraine just over a year ago and Ukraine started to steal Russian gas that was destined for the EU. Russia's pipeline routes encircle the EU from the north and south.

Russia and Germany have teamed up to build a gas pipeline under the Baltic Sea, bypassing Ukraine and Poland (see map). Gerhard Schröder, a former German chancellor signed up by Mr Putin to preside over this Nord Stream pipeline, claims that it will make Europe safer. But a study by Sweden's Defence Research Agency concludes that it will divide the EU and increase dependence on Russia. It will let the Kremlin turn off gas supplies to Ukraine, Poland and Belarus without affecting “more important” customers. Understandably, Poland is anxious. The pipeline will increase the flow of gas to Germany and hook in countries that do not yet consume much Russian gas, including the Netherlands and Britain.



In the south, Russia has a pipeline across the Black Sea which supplies gas to Turkey. Now Russia wants to extend this Blue Stream pipeline to Hungary. That would compete directly with Europe's own plan to build a pipeline called Nabucco from Turkey to Austria. Nabucco has been one of the EU's few concerted responses to Russian domination of its gas supplies: it would be filled up with gas from Central Asia and thus bypass Russia altogether. But it is now creating more friction than unity.

Hungarian rhapsody

Last month Hungary's prime minister, Ferenc Gyurcsany, called Nabucco a “long dream”. Instead, he suggested that Hungary would support the extension of Blue Stream. Gazprom already supplies 80% of Hungary's gas and has promised to build a large gas-storage facility that could be a hub for central Europe. “Blue Stream”, enthused Mr Gyurcsany, “is backed by a very strong will and a very strong organisational power.” (When Hungary was accused of undermining the EU's common energy policy, the tart response was that it was impossible to undermine something that did not exist.)

As well as controlling pipelines, Gazprom has also been busy buying up pieces of Europe's gas infrastructure. It owns 35% of Wingas, a German distribution company, and also has stakes in the Baltic countries' distributors. It has 10% of the interconnector pipeline between Belgium and Britain and wants a similar share of a British-Dutch link. It is also muscling its way into electricity, oil and liquefied natural gas (LNG) projects. “It is not enough for us to meet 25% of global gas consumption. We want to be the biggest energy company in the world,” Alexander Medvedev, Gazprom's deputy head, has said of his company's modest ambition.

Most European governments have been careful not to alienate Russia. As long as Gazprom plays by the rules, they say, it should be allowed to invest in their markets. Belgium recently said it had no problems with Gazprom owning parts of its infrastructure. Russia, in contrast, has a big problem with foreign companies owning, let alone controlling, any of its natural resources. It has bullied Royal Dutch Shell into ceding control of the Sakhalin-2 project in the far east of the country; it has blocked BP's plan to develop

a gas field in eastern Siberia; and it has kept foreign companies out of the development of the giant Shtokman field in the Barents Sea, saying that it will go it alone.

In the same spirit, the Kremlin has flatly ruled out ratifying the EU's energy-charter treaty, which would require it to open up its gas pipelines to other countries and other suppliers. The Russians have made a mockery of a joint declaration on energy issued at the G8 summit they chaired in St Petersburg last July. The declaration called for more honesty, competition and transparency. Yet just two days later, Mr Putin enshrined into law Gazprom's monopoly position as the sole exporter of gas.

Then there is the talk of creating a gas equivalent to the OPEC oil-exporters' cartel. On April 9th Russia joined other gas producers in Qatar to discuss the possibility, and offered to lead a study into gas pricing. The next meeting of the group will be in Moscow. With almost 60% of the world's gas concentrated in just three countries —Russia, Iran and Qatar—the notion of a cartel sounds appealing. But fixing prices for a commodity that is not traded on world markets will prove much harder than it has been for oil. Even so, as Mr Putin said earlier this year, “it would be a good idea to co-ordinate our activities.”

Gazprom has already signed a memorandum of understanding with Algeria's Sonatrach to co-operate in gas production. This has unnerved European consumers, as Algeria is their third-largest supplier of gas, after Russia and Norway. America, too, is nervous. “Russia's commercial and political shadow over the governments in central Europe makes it harder for us to deal with our allies,” says a senior State Department official.

The EU's dependence on Russian energy is hardly new. Nor is tension between Russia and America. “The Americans were constantly telling us we were too dependent on Russian gas in the 1970s and 1980s,” says Sir Rodric Braithwaite, a former British ambassador to Moscow. Yet, throughout the cold war, Russia remained a reliable gas supplier. Why should things be different now?

First, says, Cliff Kupchan, director of the Russian programme at Eurasia Group, a consultancy in Washington, DC, the Soviet Union was politically more predictable than its successor. “It was run by geriatrics, but we knew that one geriatric would succeed another.” Russia's political stability is ephemeral. It relies on Mr Putin's will, not on an institutional transfer of power. With nationalism on the rise, it is anybody's guess who will be in charge of Russia in ten years' time.

A second difference is that the energy relationship between the Soviet Union and the West stopped at the border—albeit the border of the Soviet block. The oil and gas ministry, Gazprom's predecessor, did not try to take over any of western Europe's infrastructure. Gazprom has no scruples about using its muscle to buy such assets. Gazprom's desire to control their pipelines has been central to Russia's recent clashes with Ukraine and Belarus.

Third, the Soviet energy business was run by technocrats who implemented centrally planned decisions. Today, it is controlled by former KGB men obsessed with money and power. Gazprom has several ex-KGB members on its board of directors. Rosneft, the state-controlled oil champion, is chaired by a former agent who is now deputy chief of the Kremlin staff. “People in Europe have a natural apprehension about their homes being heated by these people,” says one commentator on Russia.

Yet dependence cuts both ways. Europe may depend on Russia for half its gas imports, but Russia is dependent on Europe for the bulk of its export revenues. Repeated threats by the Kremlin to divert the flow of gas to China mean little without pipelines that it would take many years to build. Switching off gas to Europe will never make commercial sense for Gazprom. The fear in some EU countries is that commercial interests may one day become secondary to political ones. Of 55 cut-offs, explicit threats or coercive price actions by Russia since 1991, only 11 had no political underpinnings, according to the Swedish defence study.

Running on empty

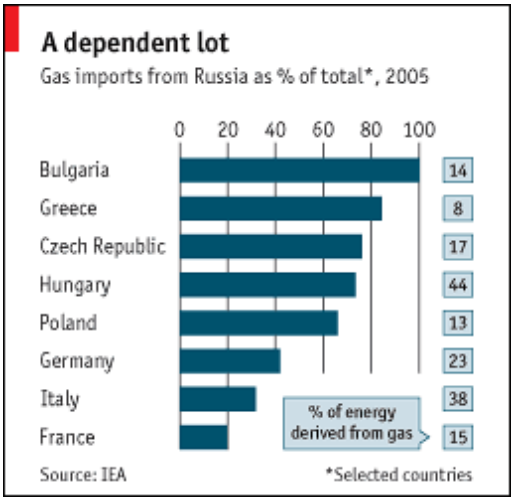
If all this is not worrying enough, there is another, more immediate source of concern for the EU: that Russia may be physically unable to produce enough gas to satisfy demand. Even worse than being dependent on a company like Gazprom may be to be dependent on a Gazprom that is short of gas.

The output of Gazprom's three super-giant fields, which account for three-quarters of its production, is declining at a rate of some 6-7% a year. Output from a new gas field brought on stream in 2001 has already peaked. Last year, Gazprom decided to develop a massive field in the Yamal peninsula—frozen

and barren Arctic land—but that will take years. Meanwhile, Russia's domestic demand for gas is growing by more than 2% a year. For all its swagger, Russia is short of gas, a problem that is already affecting its electricity-generation capacity. This does not reflect any lack of reserves—Russia has the world's biggest—but rather a longstanding failure to invest enough in their development.

Gazprom has argued that it will invest in new fields only if it can pre-sell the output to Europe. Instead it has been spending lavishly on pipelines and downstream assets. This has a certain monopolistic logic. Raking in the middleman's profits from exports is easier and more lucrative than investing billions in developing new fields for a domestic market which, although it consumes two-thirds of Gazprom's production, generates hardly any profits, as regulated Russian gas prices are much lower than most European ones.

Meanwhile, Gazprom relies on Central Asia, especially Turkmenistan, to plug the gap in gas supplies, which makes many investors and consumers nervous. A study by UBS, a bank, concludes that Turkmenistan may have signed contracts to supply twice as much gas after 2009 as it can actually produce. The nervousness over potential shortages of gas, though, plays in Gazprom's favour: as with talk of a gas OPEC, it prods the Europeans into striking special deals with Gazprom.



Gazprom's position is reliant on support from Europe's national energy champions such as Gaz de France, ENI of Italy and Ruhrgas of Germany. Companies such as Ruhrgas and Gazprom have each other's interests at heart. Indeed, Ruhrgas owns about 7% of Gazprom, worth some $17 billion, and has a seat on Gazprom's board. ENI and Enel of Italy this month acted directly for Gazprom when they bought the expropriated gas assets of the bankrupt Yukos company in a controversial auction. Under a pre-arranged deal, the two Italian companies agreed to cede control of these assets to Gazprom, which was too cautious to bid in its own name. In return ENI and Enel were given a foothold in Russia's gas fields and possibly a seat on the board of Gazprom's oil company. Gazprom also has long-term gas contracts with ENI, which gives it direct access to Italian consumers.

Gazprom has similar arrangements in Germany and France. Vladimir Milov, the head of the Institute of Energy Policy in Moscow, says that the links between Gazprom and its European counterparts amount to a cartel between wholesale buyers and sellers. The losers in this game are European consumers who are forced to pay gas prices that are several times higher than the wholesale price which their national companies pay to Gazprom.

Trying to persuade Russia to break up Gazprom's monopoly is a futile task. The best way to increase the EU's energy security would be for it to liberalise its own market and unbundle its national utilities. This would cut profit margins in gas distribution, and thereby reduce Gazprom's appetite for European domestic assets. It would encourage European network operators to invest in interconnectors between electricity grids and pipeline networks, weakening Russia's ability to play off one customer against another. No wonder Gazprom does not warm to the idea of European energy liberalisation, which it has called “the most absurd idea in the history of the world economy”.

Break it up

The European Commission has been urging EU members to break up their vertically integrated energy companies, but France and Germany are resisting. The problem, says the commission, is that national governments do not understand the link between liberalisation and greater energy security. “New member states equate security with nationalism. But the only alternative to integration is isolation,” says one senior EU official.

At the most recent EU summit in Brussels, heads of governments pledged to separate their energy supply and production activities from transport networks, which will be managed independently. This falls short of an ownership break-up but it should increase competition. EU leaders accepted the need to link their energy networks, allowing more cross-border trade and thus both boosting competition and reducing Gazprom's power. Europe is also talking of building more LNG terminals that can be stocked by other suppliers.

The EU's imports of LNG will certainly rise in coming years. The International Energy Agency (IEA) estimates that European imports of gas from Africa and the Middle East, mainly in the form of LNG, will quadruple by 2030. But LNG is expensive, and generally involves inflexible long-term sales contracts. Moreover, the IEA's projections assume that the Europeans overcome their squeamishness about building ugly LNG terminals. Equally improbably, they assume that Russia will not find some way to impede the emergence of rival exporters.

Getting direct access to Central Asian and Caspian gas is vital to European energy security. The Russians are well aware of this, as are the Americans, who have been active in the region and brokered the deal to build the twin oil and gas pipelines that now run from Azerbaijan to Turkey via Georgia. The Americans would like this gas to be carried on from Turkey to central Europe via the Nabucco pipeline, rather than the extension of Blue Stream.

But Azerbaijan's resources are not enough to make a material difference to European energy security. The big strategic battle now will be over gas-rich Central Asia. The Americans have revived their old plans to build a trans-Caspian pipeline and are actively courting the region's politicians, however dictatorial and disreputable. A change of government in Turkmenistan has given these efforts new impetus. But transporting Central Asian gas to the EU without Russian involvement will be testing. Apart from the unpalatable option of building a pipeline through Iran, the only way to get Turkmen gas to Europe would be across the bottom of the Caspian Sea. But a long unresolved dispute over the ownership of the Caspian between Iran, Kazakhstan, Azerbaijan and Russia makes this option explosive.

Russia has been jealously guarding its control over the Central Asian markets. It has more than doubled the price it pays for Turkmen gas and now claims to have a deal to buy all the gas the country can produce for the next 25 years. Last week Sergei Lavrov, Russia's foreign minister, went to Turkmenistan to promote “close co-operation”, which means rejecting any American overtures. Russia cannot afford to lose control over gas exports from Central Asia because that would severely undermine its power over Europe.

The Kremlin's determination to keep a grip on their gas supplies should be an obvious worry for Europeans. But it could carry dangers for Russia too. If the EU ever manages to find an alternative to Russian energy, in the form of more LNG, Iranian gas, renewable energy or a pipeline under the Caspian, Russia would lose control of its key market. Even if it does not, the Russian economy will become ever more dependent on natural resources.

As Mr Putin contemplates a gas OPEC, he should remember that although the 1973 OPEC oil shock extended the life of the Soviet regime, it also left a Russian economy trailing behind its Western peers. “Basing national power and prosperity on an inadequate monoculture is as risky as basing them on rockets in the cold war,” argues Sir Rodric Braithwaite. Still, Russia's ability to cause harm to itself and to others in the cause of proving its greatness should never be underestimated.

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Ukraine's political crisis

Viktor v Viktor

Apr 12th 2007 | KIEV
From The Economist print edition

Ukraine is in political crisis again. Is there a way out?

THE tents and flags are back in Independence Square; shots of the crowd again beam from giant screens to make them feel strong. The tactics are borrowed from the orange revolution of 2004; but the heart is missing. Speakers strive in vain to rouse the masses—some drunk, many seemingly paid to attend. At a protest encampment near the Rada, Ukraine's parliament, the carnival atmosphere of 2004 has been replaced by one of surliness.

This shabby parody was provoked by the decision last week of Viktor Yushchenko, whom the revolution swept to Ukraine's presidency, to dissolve the Rada and call an early parliamentary election for May 27th. The Rada's majority and the government say the president's decree is unconstitutional. Both are headed by Viktor Yanukovich, who was beaten in 2004 but became prime minister again last year.

Mr Yushchenko's team says, as his adviser Oleg Rybachuk puts it, that Mr Yanukovich has himself “ignored all the constitutional blah blah blah” since he returned to office, constantly encroaching on Mr Yushchenko's authority, and using blackmail and bribery to amass a majority big enough to emasculate the president altogether. (Mr Yanukovich's people retort that the members they have turned are too rich to need bribing.) The government is refusing to organise the vote. Mr Yanukovich's Party of the Regions (PRU), and its Communist and Socialist allies, are refusing to participate in it, until Ukraine's constitutional court rules on the legality of the president's dissolution decree.

Some of the court's judges this week complained of threats and pressure, delaying the hearing. Mr Yanukovich deployed a mix of menace (threats of impeachment, thousands bused into Kiev for his rallies) and compromise to persuade Mr Yushchenko to back down. But the president is not inclined to. Attending an Orthodox Easter service, he said he was determined to “cleanse the temple of the Pharisees and money-changers”. Mr Rybachuk says Mr Yanukovich's lot are gangsters who respond only to force.

On April 11th a way out of the impasse involving an election, but not as soon as May, suddenly looked likely. Prolonged instability would not suit the business tycoons who stand behind Mr Yanukovich. But less comfortable outcomes are still possible, such as a court ruling after the election that retroactively invalidates it. A more immediate danger is violence. This week riot police were positioned between Independence Square and a rival, pro-president rally staged (with better music) nearby. Mr Yushchenko's strong support in the capital, crucial in 2004, and his control of most of the security services, might prove decisive if the crisis deepens.

Optimists see this latest Ukrainian stand-off as a product of the youth and fragility of its democratic institutions, and especially of a fudged constitutional reform agreed in 2004. They hope that a fresh election, plus some constitutional tinkering, will produce cleaner and more stable politics—even if, as Yuri Yakimenko, a Kiev pollster, says is likely, the new Rada ends up looking much like the present one. The only change might be that the Socialists, who betrayed their supporters by joining Mr Yanukovich, fail to get in. There will doubtless also be much talk of reviving the old orange alliance between Mr Yushchenko's party and Yulia Tymoshenko, his revolutionary ally and one-time prime minister, for whom every crisis brings fresh opportunity.

The trouble is that, whatever its constitutional arrangements, Ukraine will for the foreseeable future be governed by corrupt, discredited politicians. Mr Yanukovich and his gang seem to treat everything—judges, parliamentary seats, protesters—as commodities for sale. To them the orange revolution was a paid-for confidence trick. But the revolutionaries themselves emerged from the same post-Soviet regime. Many were motivated by greed as much as principle, and afterwards felt entitled to political and financial rewards.

Worse, beneath the struggle for power and assets lies a deeper schism, which Mr Yushchenko has failed to bridge. Although he roused only half-hearted cheers at his Kiev rally, Mr Yanukovich unquestionably

commands wide support in south and east Ukraine. Old geopolitical loyalties are part of the explanation. “Yushchenko is Bush's puppet,” said one of the livelier protesters in the square, wearing a Red Army cap and carrying a placard showing George Bush as a Nazi. The Americans, she added, need Ukraine for their war with Russia.

But there are other differences between Mr Yanukovich's backers and the western and central Ukrainians who mostly support his opponents. The east suffered in the Stalinist famine of the 1930s and inherited a political culture that combines narrow paternalistic expectations with profound cynicism. Easterners despised Mr Yushchenko in 2004 because, to them, his promises of a new sort of government were so much cant.

That cynicism has not been wholly vindicated. Ukraine now has freer media and more assertive citizens. Even today's rancour can be seen as evidence of political pluralism, at least when compared with the situation in neighbouring Russia. But, thanks to the orange leaders' shortcomings and squabbles, neither have the cynics turned out to be completely wrong.

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Turkish honour killings

A dishonourable practice

Apr 12th 2007 | DIYARBAKIR AND VAN
From The Economist print edition

Despite a government crackdown, honour killings persist in Turkey

WITH his soulful eyes and timid smile, Murat Kara, a 40-year-old stocking seller in the mainly Kurdish city of Diyarbakir, is an unlikely murderer. Yet 13 years ago he pumped seven bullets into his younger sister. His widowed mother and uncles told him to kill the 17-year-old after she eloped with her boyfriend, staining the family's honour. Mr Kara resisted for three months because “I loved my sister and didn't believe she deserved to die.” But then the neighbours stopped talking to him, the grocer refused to sell him bread, the local imam said he was disobeying Allah, and his mother threatened to curse the milk she had breast-fed him. So he gave in.

The killing of women by male relatives who believe they have dishonoured the family—eg, by getting pregnant outside wedlock or wearing revealing clothes—has haunted Turkey for centuries. Bowing to pressure from the media, feminist groups and the European Union, Turkey's mildly Islamist government has launched an unprecedented campaign against honour killings, disarming even its fiercest critics.

State-employed imams now declare honour killings “sinful” in the Friday sermons they deliver across the country. Tens of thousands of army conscripts and police recruits are taught that violence against women is bad. Brooking the ire of his conservative constituents, Recep Tayyip Erdogan, the prime minister, told a gathering of foreign Muslims that “discrimination against women is worse than racism.” Nor is this mere talk. Turkey's penal code has been tweaked to stiffen penalties not only for those who commit honour killings but also for those who plan them. Had Mr Kara, who got seven years thanks to a judge who deemed he had been unduly provoked, killed his sister today, he would in all probability be serving a life sentence.

The trouble is that, despite the government's efforts, honour-related crimes show little sign of abating. A parliamentary report last August found that 1,091 such crimes had been committed in the past five years—over four a week. Only three of 51 honour killers interviewed for another study said they had any regrets.

In a society where female chastity is venerated and the motto “my horse, my gun and my woman are sacred” is common among men, “this should not come as a surprise,” notes Zozan Ozgokce, a female activist who runs an EU-funded project in Van to counsel abused women. Fatma Sahin, a deputy from Mr Erdogan's AK Party who drafted the parliamentary report, blames the deeply entrenched patriarchal and feudal system in the Kurdish provinces, where many of the murders occur. Rampant poverty and illiteracy have been exacerbated by the forced eviction of millions of Kurdish villagers by the army in its war against PKK rebels in the 1990s.

With refugee families of up to 20 or more crammed into tiny slums, incest and rape have shot up, says Handan Coskun, a social worker in Diyarbakir who is investigating links between female suicides and honour crimes. One survivor said she was ordered to take her own life (and locked in a room with a bottle of bleach) by her father, who sought to disguise his daughter's failed murder as suicide. She managed to escape; less fortunate souls have been found dead with their wrists slit or hanging from a rope.

In Diyarbakir and elsewhere in the south-east, new efforts are being made to protect vulnerable women through emergency hotlines and shelters for abused women. The first government-run refuge opened its doors outside Diyarbakir two years ago. Many of the residents are pregnant teenage rape victims, who risk being killed by relatives who blame them (and not their rapists) for their plight.

Still, male accomplices or perpetrators are often targeted, too. And honour crimes are not a uniquely Kurdish phenomenon, says Leyla Pervizat, an Istanbul-based expert. This is especially true of the fiercely conservative Black Sea region where “after the men are killed, their penises are cut off and stuffed in their mouths,” she adds laconically. What gives her hope is that the number of those willing to tip off the authorities about a planned murder is growing—so more lives are being saved. And many of the

whistleblowers are male.

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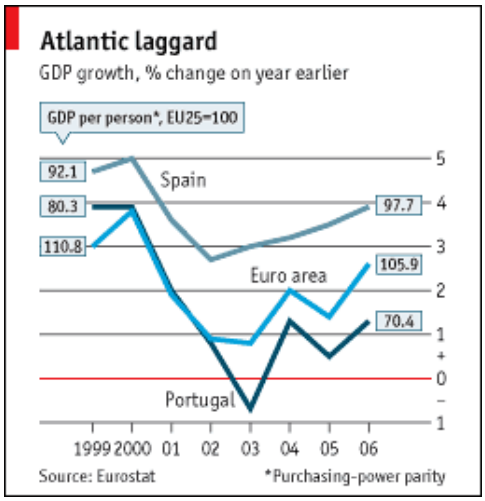
The Portuguese economy

A new sick man of Europe

Apr 12th 2007 | LISBON
From The Economist print edition

Portugal comes bottom of the European economic growth league



LOOK at any table of European economic data and Portugal stands out. GDP growth last year, at 1.3%, was the lowest not just in the European Union but in all of Europe. Since 2000 the Czech Republic, Greece, Malta and Slovenia have all overtaken Portugal in terms of GDP per head. And Portuguese GDP per head has fallen from just over 80% of the EU 25 average in 1999 to just over 70% last year.

Portugal was the first country threatened with sanctions by the European Commission for breaching the euro zone's stability and growth pact, which sets ceilings for euro members' budget deficits. The commission thinks Portugal's sin was to let public spending soar out of control, pushing the forecast deficit in early 2005 up to 6.8% of GDP, the highest in the euro zone. Ironically the commission is now headed by José Manuel Barroso, a former Portuguese prime minister who ought to shoulder some of the fiscal blame.

The government is still struggling to bring the deficit below the stability-pact ceiling of 3% of GDP. It also wants to shake off its image among economists of being a prime example of how not to behave when joining the euro. What this image neglects is that José Sócrates, the Socialist prime minister, has been getting to grips with reform in Portugal since he took office two years ago—with some success.

After commissioning a central-bank audit that revealed the alarming state of government finances, he broke an election pledge and raised value-added tax from 19% to 21%. He has attacked public-sector privileges by holding down pay, raising the minimum retirement age from 60 to 65 and cutting sick pay sharply. This year the focus is on streamlining the public administration, which costs more as a share of public spending than in any other euro zone country. Doctors, nurses, teachers, police and other public-sector workers have all taken to the streets in protest. But Mr Sócrates's tough approach is bearing fruit. The deficit fell to 3.9% of GDP in 2006, better than the initial target of 4.6%. At the same time, a jump in exports helped to lift growth above forecast.

Sharing the Iberian peninsula with the economic powerhouse of Spain, where growth has been above 3% in all but one of the past ten years, makes Portugal's performance look worse. In a poll last autumn, 28% of respondents said they would prefer to be part of a united Iberia under Spanish rule. Few Portuguese would really go that far, but they do ask why they are doing much worse than their neighbours.

There are several answers, say central-bank economists. Portugal has suffered more than Spain from higher oil prices. Its unit labour costs have risen sharply, whereas Germany's have fallen. Until recently, it has suffered a big drop in demand in its main export markets, especially Germany. Spain's economy has been buoyed by a construction boom fuelled by rising immigration. Renewed political instability has also taken a toll: on average governments in Lisbon have lasted just two years since the return of democracy in 1974.

But the biggest difference is that Spain reformed its public sector and disciplined its public finances before joining the euro, not afterwards. When interest rates fell and released a surge of growth in the late 1990s, Portugal responded with an expansionary fiscal policy instead of taming its deficit. This was Portugal's big missed opportunity: one that Mr Sócrates is now seeking, belatedly, to remedy.

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Poland and the second world war

Black mischief

Apr 12th 2007 | WARSAW
From The Economist print edition

Whose version of history should prevail at Auschwitz?

COMPARED with the other horrors of Auschwitz, questions of nationality might seem secondary. But they rankle. Russia wants to describe as “Soviet citizens” the hundreds of thousands of people killed there who came from such places as eastern Poland and Lithuania. During the camp's existence, these were part of the Soviet Union. Poles find the wording infuriating: the Hitler-Stalin carve-up of eastern Europe was a crime, not a mere historical backdrop.

Russia closed its exhibition at Auschwitz in 2003, to update it. But the Polish authorities will not let it reopen unless it changes its terminology. Russia is furious. A Russian politician, Konstantin Kosachev, accused Poland of wanting to “rewrite history”. A Russian Jewish leader called the move “blasphemous”. Wladyslaw Bartoszewski, a former Auschwitz inmate who was also twice Poland's foreign minister, and who chairs the museum's international council, accuses Russia of “sheer arrogance”.

Attempts to exploit Auschwitz are hardly new. Under communism, the museum there oozed Soviet propaganda, obscuring the fact that most of the million-plus murdered in the camp were Jews. Poles are twitchy when outsiders call it a “Polish death camp” and neglect to mention that it was built and run by the country's Nazi occupiers.

A somewhat similar row is brewing in Estonia, where the government wants to move a Soviet-era war memorial from the centre of Tallinn to a war cemetery. The figure of a bronze soldier is seen as a heroic liberator by many locals with Russian ancestry. But to many Estonians the “unknown rapist” symbolises only the switch between a Nazi occupation and an even more brutal Soviet one.

Russia's relations with its former satellites are not uniformly bad: it has just signed a border treaty with Latvia and its ties with Hungary are positively chummy. But relations with Poland are icy. Last year the Poles vetoed the start of talks on a new EU-Russian co-operation agreement, because of a year-long Russian embargo on Polish meat exports, imposed seemingly out of spite. That issue is now sure to overshadow next month's EU-Russia summit.

Yet squabbles about sausages may be patched up more easily than rows about the past. Under Vladimir Putin, the Soviet version of history has become part of Russia's own story. The idea that anyone might not have wished to be a “Soviet citizen” seems baffling and rather ungrateful. The Poles find Russian nostalgia for the Soviet empire not just baffling, but worrying.

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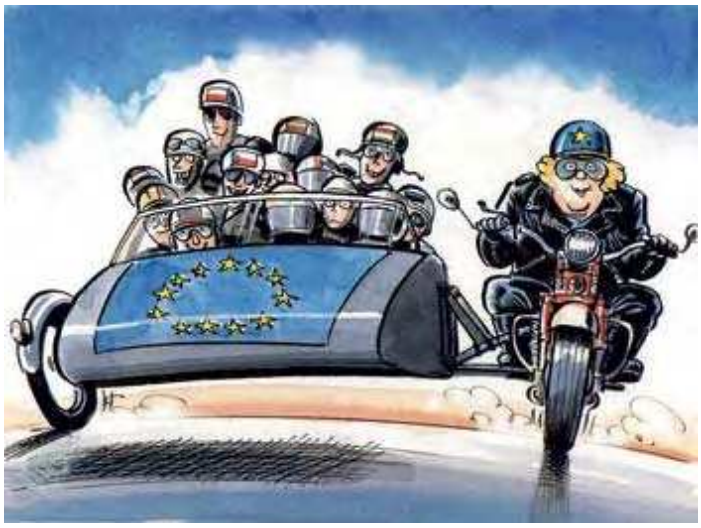
Charlemagne

The non-functioning myth

Apr 12th 2007
From The Economist print edition

Peter Schrank



Our newly arrived columnist says it is dishonest to pretend that the European Union is unable to work

FEW things make European Union bosses so cross as “euromyths”: those invented or exaggerated tales of barmy Brussels bureaucrats trying to outlaw a cherished feature of everyday life, be it pints of British milk or low-cut blouses on Bavarian barmaids (to quote two tabloid stories from last year). Yet these same folk have ostentatiously helped to foster the biggest euromyth of the moment: the notion that the EU has been paralysed by its recent enlargements, so it must now make far-reaching institutional reforms if it is to keep functioning at all. These reforms, enshrined in the ill-fated EU constitution, include the abolition of national vetoes in many policy areas, scrapping the practice of one European commissioner per country and rejigging national governments' votes.

There is no mystery about the reason for the success of the paralysed Europe myth: it sounds so plausible. The present rules were drawn up for a club of 15, or even the original six. But the admission of Romania and Bulgaria has pushed the union up to 27 members. This seems a recipe for inertia. The commission must struggle to defend its collegiate tradition with 27 members, the newest of whom, a Romanian, has the humiliating non-portfolio of multilingualism. Throw in the fact that new members, notably Poland, have gained a reputation for hard bargaining in Brussels, and it seems logical, to quote Nicolas Sarkozy, front-runner for the French presidency, to conclude that “Europe is blocked” because “there are too many countries for voting by unanimity to work” and the gulf between the EU's competing interests is growing “wider and wider”.

This argument has been seized upon by many European politicians as they seek to whip up enthusiasm for another go at the EU constitution. It is a line that works equally well for those who yearn to rescue the bulk of the text, which was rejected in the French and Dutch referendums in 2005, and for those such as Mr Sarkozy who favour carving a much smaller treaty from the wreckage. The Dutch government says it will not ask its citizens to vote a second time on the constitution. But its Europe minister, Frans Timmermans, agrees that the EU “cannot continue to function with 27 member states” on its present rules.

There is even a version of the paralysed Europe myth tailored for countries such as Britain that support further EU expansion but resist the scrapping of more national vetoes. This is to portray institutional paralysis as an insuperable bar to enlargement. The German chancellor, Angela Merkel, kicked off her stint as holder of the EU presidency by saying that “we know that, under the current regulations, the EU can neither be enlarged, nor is it capable of taking the necessary decisions.” If this sounds like blackmail,

that is because it is: it holds the western Balkans and, in due course, Turkey, hostage to a new institutional settlement.

If these doom-merchants were right, one would expect to spot a number of obvious things in Brussels. One would be a growing logjam of legislation, concentrated in policy areas that need unanimous agreement by all EU members. It might also be expected that new members would be behind a disproportionate number of these blocked dossiers. Yet the logjam does not exist. Hard political decisions continue to be taken unanimously: recent examples include an open-skies transatlantic aviation deal, agreed despite British qualms, and a climate-change plan that Ms Merkel trumpeted as historic.

The list of projects blocked by any of the new EU members is also relatively footling: a spat with Russia over Polish meat exports; a bar on direct EU trade with the Turkish-occupied north of Cyprus; Estonian and Lithuanian pleas for an EU package on Holocaust denial to cover Stalin's crimes. In fact, most new members rarely speak; officials report that there is much less waffle in enlarged EU meetings. (In the old days, the Italians were quite capable of talking for 25 minutes about a single paragraph.)

If it works, don't fix it

Overall, the EU has been adopting new rules and regulations some 25% faster since enlargement, says a study published by Sciences Po in Paris. Its authors have tracked thousands of proposals, large and small. “Contrary to much received wisdom,” they conclude, “the data gathered shows that enlargement has not...brought Europe's machinery to a halt.” Looking for blockages, they find that “old” members have opposed proposals twice as often as new ones. The French study, like a report on EU summits from the Swedish Institute of European Policy Studies, concluded that meetings of EU commissioners and national politicians have become less cosy, with more deals stitched up in the corridors, but that is a rather different point.

As for talk of new voting rules, these conjure up images of late night cliffhangers, in which new laws scrape through by a bare majority. But that is not how the EU works. In both the commission and in meetings of national ministers, votes are generally shunned in favour of consensus. Abolishing national vetoes still matters, but for a different reason. When laws can be approved by majority vote, governments enter negotiations in a state of fear, knowing that doubters can easily end up isolated; a knowledge that pushes everybody towards compromise, gives the commission more power and promotes “more Europe”. If countries have a veto, they can sit out the argument and simply say no. When eurocrats call for more streamlined decision-making, what they mean is making life more frightening for laggards. Hans-Gert Pöttering, president of the European Parliament, is admirably frank: “If you have majority voting, you can overrule those who don't want to move ahead.”

If only everybody were so honest. There is a legitimate political argument to be had about picking out all or parts of the EU constitution to make Europe work in a different way. But it is dishonest to disguise this argument as a technical one about getting Europe to work at all.

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Scottish elections

Upheaval in the north

Apr 12th 2007 | EDINBURGH
From The Economist print edition

Getty Images

The kingdom is looking anything but united as it heads toward regional and local elections. This article looks at the resurgence of Scottish nationalism; others consider Wales and England

"THERE are just 30 days to save devolution," proclaimed Jack McConnell this week. Scotland's first minister was firing Labour's opening shots in the campaign leading up to elections for the Scottish Parliament on May 3rd. By awkward coincidence, these fall two days after the 300th anniversary of the formal union between Scotland and England. Mr McConnell has every right to sound alarmed.

Most recent opinion polls have given the Scottish National Party (SNP), which seeks independence from Britain, a hefty lead over Labour. Those who were squelched years ago for giving warning that devolution was less a solution to separatist sentiment than a fast track to secession are laughing up their sleeves. Is the union, in fact, in peril, with Scotland the first of the four nations that make up the United Kingdom to walk free?

Not if Labour can help it. Launching his party's manifesto on April 10th, Mr McConnell promised to increase spending on education—Labour's Big Idea in Scotland—by £1.2 billion ($2.4 billion) a year in three years time. The consequences for education of leaving the union would be "conflict, division, turmoil and cost", he thundered. Much bigger Labour guns have been blasting away too. Tony Blair has alerted voters to the "uncertainty and instability" that an SNP government would cause, and Gordon Brown, the chancellor of the exchequer and Mr Blair's likely successor as prime minister, warns that the Nationalists pose "a dangerous risk".

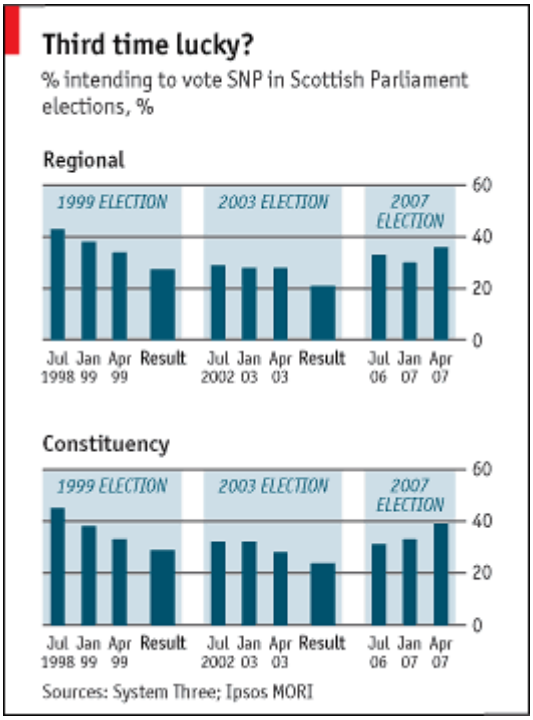
That risk is not, for all the sound and fury, imminent independence for Scotland, however. Relatively few Scots actually want it, for one thing. No more than 30% support independence, says John Curtice of Strathclyde University—roughly the same as at devolution in 1998 and notably less than the 36-39% who back the SNP.

And even that sturdy backing is unlikely to translate into enough votes to let the SNP run Scotland on its own. Mr Curtice reckons the roughly five-point lead over Labour that opinion polls give the Nationalists might yield them 45 regional and constituency seats (up from 27 now) to Labour's 40 (down from 50)—well short of the 65 seats needed for an outright majority. As the Liberal Democrats, the SNP's only possible coalition partners, are opposed even to holding a referendum on independence, the chances that the SNP will achieve its dearest wish remain remote.

But risk there is, and for Mr Brown more than anyone. The first thing he stands to lose if Labour is knocked off its perch in Scotland is face. For this has been solid Labour territory since Margaret Thatcher's policies closed many of its mines and factories in the 1980s. Most would expect Scots to jump at the chance of voting this time for a Labour Party that has a Scotsman representing a Scottish constituency in Westminster poised to become its leader. But Mr Brown's reputation was dented last year when the Liberal Democrats won a by-election in the constituency next to his own, despite his personal campaigning in the district. Defeat in Scotland next month—especially at the hands of a party that wants to break up Britain—would give valuable ammunition to opponents within his party who are intent on frustrating his bid for the leadership.

Mr Brown might be inclined to take heart from previous Scottish elections, when support for the SNP faded as polling day drew near. But this time the Labour government in London is hugely unpopular. The Conservatives are reaping most of the protest votes in England; in Scotland it is the SNP, and its poll ratings are rising (see chart). The Tories, under unstellar leadership, are little more than a side-show north of the border now, and the Liberal Democrats are just holding steady in third place.

Adroitly, the Nationalists have enhanced their appeal to the right by promising to cut local business taxes a bit and, once Scotland is independent, to reduce corporation tax from Britain's 28% in 2008 to 20%. They have also cultivated the left by stridently opposing the Iraq war, the renewal of Trident nuclear missiles (which are based in Scotland) and new nuclear power stations. To pensioners and others, they say they will replace council (property) taxes with a local tax of 3% on earned income—though Labour says it would need to be 5% to replace the lost revenue.



Coincidentally, Mr Brown cut the national rate of basic income tax by two percentage points in the budget last month. The SNP's local-tax plans, he says, would make Scotland the highest-taxed part of Britain. As income tax tends to be higher in most earners' priorities than council tax, this argument may have some force. But the real battleground is not fiscal but political: namely, Scotland's relationship to the rest of Britain.

In past elections, Labour has turned the tide of support for the SNP by attacking its aspirations for independence, but that may not work this time. The SNP says the issue would be decided in a separate referendum and not for at least three years—time enough, its politicians reckon, to prove themselves competent rulers of a devolved Scotland. Labour claims that the uncertain interregnum would damage the Scottish economy.

More importantly, it asserts that Scotland cannot survive without a big subsidy from England. This is highly controversial: the SNP fumes, with some justice, that North Sea oil and gas production, most of which would be in an independent Scotland's seas, has contributed huge sums to England that are left out of the equation.

Pointing this out, however, will not stop growing English gripes that more public money per head is spent in Scotland than in poorer English regions, and on services such as personal care for old people and most university education that folk have to pay for in England. Neither will it blunt increasing resentment that, although Scotland has its own Parliament, Scottish MPs (including the probable next prime minister) get to make decisions about purely English matters.

Both of these things can be improved—by adjusting the formula under which money is dished out to Scotland, and by cutting further the number of Scottish MPs in Westminster. And Scots anxious for home rule could be given a bigger dose of devolution instead: for example, greater freedom to set their own taxes. Mr Brown, an instinctive centraliser but also a great exponent of Britishness, could perhaps be the man to give it to them. Unless, that is, Scottish voters blast him out of the water before he has the chance.

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Welsh politics

A rumbling in the valleys

Apr 12th 2007 | CARDIFF
From The Economist print edition

Why another of Labour's heartlands is becoming more restive

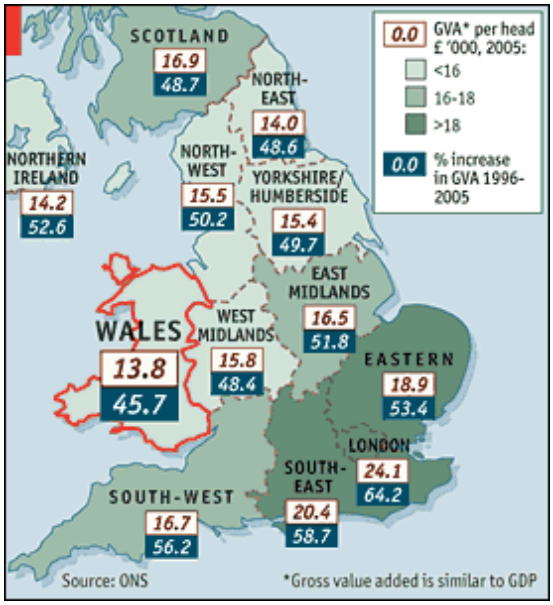
ATTRACTIVE though they are, the glass walls, steel struts and curved wood ceilings of Wales's National Assembly are unlikely ever to feature on the opening credits of a televised political drama. The politicians and staffers who stride along its corridors are not worrying over great matters of state. Though it is set soon to get powers more akin to Scotland's, until now the Assembly has been permitted only to amend laws made in Westminster, and then only in certain areas. Rhodri Morgan, Wales's Labour first minister, reckons listening to the Assembly's orators is as diverting as watching paint dry.

Still, warm bodies have to be selected every four years to fill it. In the elections on May 3rd the Labour Party, which has won a plurality of Welsh votes in every Westminster election since 1922 and every Assembly election since devolved government began in 1999, should still come out on top, but with its worst-ever result.

Old Labour political culture is still to be found throughout what was once the industrial core of south Wales, the most densely populated part of the country, from the committees that run local rugby clubs to the cosy relations between government and teaching unions. There is still “a pervasive belief that the state will do things for you, that it is the engine of social mobility,” says Gareth Rees of Cardiff University. And most people still assume that the state means Labour.

It is not that simple however. In 1999, not helped by Mr Blair's hamfisted imposition of an unpopular leader, Alun Michael, Labour failed to get an overall majority in Wales. And now, if a recent poll by NOP for ITV Wales is accurate, Labour will lose four of the 29 Assembly seats it currently holds (there are 60 in all) in the May elections. A single survey is unlikely to be very accurate, but there are three reasons to think that it picked up something real.

First, the swing against Labour fits the national picture. The party is unloved across Britain right now, with support in the polls only a few points above the levels the Tories sank to in the mid-1990s. Even though Mr Morgan has done his best to distinguish Welsh Labour in style and substance from the cappuccino-drinking Westminster variety—he thinks that New Labour is merely a passing fad and remarks that global warming would be a boon to tourism in Wales—his party still suffers from Labour's national funk.



A second reason is that both the main opposition parties (the Conservatives and the nationalist Plaid

Cymru) are scoring points against the party in power. The poorest part of Britain, Wales has also grown less rapidly than the rest (see map). The Tories and the nationalists have attacked Labour for wasting the £2 billion ($4 billion) of European Union funding that has come Wales's way. A recent study shows that the cash has not had much impact, and the money will shortly dry up anyway, for Wales does not look so needy when compared with Romania and Bulgaria. Both parties have also criticised Labour for the state of the unreformed health service, which lags behind its cousin in England even though it has enjoyed the same investment splurge.

The slippery nature of Welsh identity provides a third reason to think the pollsters may be right. Wales was formally joined to England in the early 16th century and run by it for far longer, so it is perhaps no surprise that its inhabitants are less keen on political devolution and independence than the Scots, who came later into the union. But their sense of cultural separateness is acute: three-fifths call themselves Welsh rather than British, not so far off the three-quarters of Scots who reject the broader classification. It is among that 60%—especially those who live in north Wales—that Plaid Cymru picks up voters, particularly in Assembly elections.

Plaid Cymru sits to the left of Labour, giving the Tories space that the righter-wing Scottish Nationalists do not afford them. That leaves Labour squeezed in a way that nothing in the past 85 years has prepared it for. Expect Wales, under whatever coalition emerges, to play a more independent hand.

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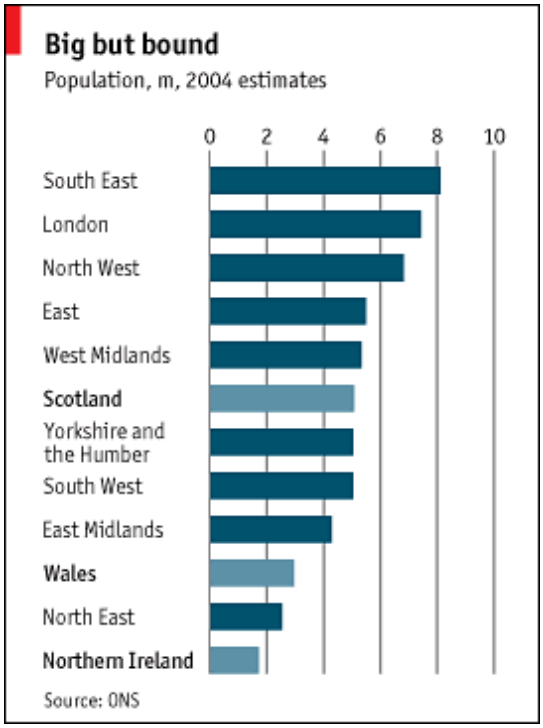
Devolution to the regions

Back in England, something stirs

Apr 12th 2007
From The Economist print edition

Regional government is making a stealthy comeback

IT WAS with a deafening bang, not a whimper, that plans for elected regional assemblies in England fell apart in 2004. A referendum on whether to establish such a body in the North East, the least populous of the nine administrative regions into which England is carved, was spat out by 78% of voters—a result so bad that the government was forced to cancel similar referendums planned in other regions.



Since that awkward episode, no one has dared to talk much about devolving power from Britain's exceptionally centralised national government to the English regions, though most are bigger than Scotland or Wales (see chart) and have reason to resent the autonomy of their neighbours. Now there are signs that politicians are getting over their embarrassment. “Defeat should be a learning experience for the progressive reformer,” chirped an upbeat regionalist pamphlet produced last summer by the New Local Government Network, a think-tank. Its authors were Ed Balls and John Healey, two Treasury ministers tipped for great things in a Gordon Brown cabinet, should the chancellor replace the prime minister as expected. A follow-up pamphlet last month, which Mr Balls and Mr Healey did not sign but are understood to have influenced, suggested ways to strengthen regional government.

Mr Balls and Mr Healey represent constituencies in Yorkshire, the only region based on an ancient county. But many from less historically distinct bits of England agree that something should be done to give more power to the people, whether at local, sub-regional or regional level. The success of London's new mayoral model inspired calls for mayors in other big cities. Two recent reports looked at overhauling local government. Now, it seems, regions are back on the agenda.

Resurrecting directly elected assemblies seems a non-starter; instead, the most likely plan involves combining existing institutions into one executive agency for each region. A hotch-potch of bodies—including the appointed Regional Development Agencies (RDAs), outposts of Whitehall departments and regional assemblies, mainly comprising local councillors—now oversee some £2 billion ($4 billion) of public spending in every region. Proponents say fusing them would improve planning and cut costs, perhaps helping to narrow the economic gap between London and the south-east and the rest of England.

Concentrating power in the hands of unelected agencies would raise hackles unless institutions are made more democratic. Rather than create a new class of regional politician, as proposed in 2004, the new thinking is to involve existing national and local politicians more closely; one idea is to group MPs into committees to scrutinise what goes on in their regions.

There are still plenty of sceptics. The Centre for Cities, a think-tank of more Blairite hue, worries that RDAs are prone to “jam-spreading”—that is, handing money out evenly to correct inequities rather than concentrating it where it makes the biggest impact on economic growth. “In recent years regional investment per capita has actually been higher in Cumbria than in Greater Manchester—that cannot be right,” says Dermot Finch, its director. Ruth Kelly, the local-government secretary, and David Miliband, her fast-rising predecessor, are thought to agree. Yet it is precisely this evenness of jam that others find so appealing. “What would be the effect on [Burnley, Blackburn and Preston] if Manchester went its own way as a city-region?” ask Mr Balls and Mr Healey.

The Yorkshiremen may be winning the tussle. Ministers are talking less now about city-regions, some say on Treasury orders. In the autumn the government will publish a big study of local and regional economic development that will influence the comprehensive review of public spending due at the same time. A cross-departmental effort, the study is being led by the Treasury, with Mr Healey at the helm.

No one is sure of Mr Brown's thinking, but few people in local government believe he will cede power gracefully. If the regions are on his radar at all, he may see them as a way to stave off English resentment of Scotland and Wales. Too late? A poll in November by ICM for the *Sunday Telegraph* showed that 68% of English people want a separate parliament instead.

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Game theory and chequebook journalism

Soldiers of fortune

Apr 12th 2007
From The Economist print edition

How do competitors avoid driving down each other's fees?

WHEN two of the 15 Royal Navy personnel held in Iran decided to sell their stories to the media, many in Britain were disgusted. Not only had the crew members provided their captors with the spectacle they wanted but some now sought to profit from it. Those newspapers that had not bought up the rights were especially angry. Within hours of the interviews appearing in the *Sun* and *Mirror* tabloid newspapers and running on ITV, Des Browne, the defence secretary, banned further deals, and he later admitted that allowing the paid interviews was a mistake. That failed to lay the matter to rest.

To those who have suffered far worse than blindfolds and threats yet kept quiet about their experiences afterwards, the interviews were grotesque. But to students of economics it was secretly rather interesting. How should 15 people selling broadly the same thing maximise, and distribute, their profits?

AFP

Too late now for second thoughts

Go it alone, advises Max Clifford, a publicist who specialises in selling sauce to the tabloids (but turned away two of these servicemen on the ground that the stunt could backfire with the public). And “the more sensational, the more money,” he says. “The girl was always going to be the one with the highest price—she was one woman among 14 men.”

True, says Paul Klemperer, a professor of economics at Oxford University, but collusion might have benefited all of them. Restricting the number of stories released to the market would increase their value; selling too many could make the price collapse. Faye Turney, the star of the debacle, might have wanted more than one-fifteenth of the proceeds, but that could have been settled through an internal auction.

Enforcing the bargain, though, might have proved difficult since this will not (they hope) be a repeated game. But unlike companies, the soldiers could threaten to punish deal-breaking members informally by “sending them to Coventry, breaking their legs or something in between”, Mr Klemperer suggests.

Newspaper exclusives of this sort are sometimes said to be less valuable these days because of the internet, which allows everyone to see the news for free. In fact, papers' websites have increased the value of such stories because they offer scope for video, argues Jonathan Hartley, another publicity agent. Of the £100,000 that Mrs Turney reportedly earned from her deal with the *Sun* and ITV, the newspaper probably paid the majority, he reckons, as it is desperate to tempt readers to its site with footage of the sailor reunited with her family. “A few years ago a video-led story was worth nothing to a newspaper. These days, if it has video, it's worth a lot more.”

The two officers in the party, Felix Carman and Chris Air, have said they will not give interviews for profit. The remaining 11 have been banned by the government from doing so for the time being, but surely now would not dare risk the furore anyway. Ever supportive of the armed forces, the *Sun* has started an online debate over whether Mrs Turney should be awarded the Victoria Cross. “Yup, then she can sell it on eBay,” one reader has replied.

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Hospitals for sale

A warning signal

Apr 12th 2007
From The Economist print edition

The private sector may not play the government's game

THREE years ago Labour's health-care reforms paid an unexpected early dividend. Attempts in the party's second term of office to generate an internal market within the National Health Service in which state-owned hospitals competed for patients were slow in the making. But the prospects for an external market in which private hospitals vied to provide publicly-financed medical care looked much brighter.

An innovative tender for independent operators to carry out treatments for the NHS had a galvanising effect on the private sector. Gallingly, most of the successful bidders were foreign firms. That prompted a rethink by British providers, which were running an expensive but profitable cottage industry, specialising in elective care, that was dwarfed by the NHS. They started to change their business model to one that could deliver higher volume at lower cost.

Among those firms was BUPA—an unusual concern in that its parent company, the British United Provident Association, has no shareholders and all surpluses are re-invested in the business. Founded 60 years ago, BUPA runs care homes as well as hospitals; it is also Britain's biggest private medical insurer and has a fast-growing international division. In 2004 it charted a new direction for its hospitals, deciding to sell off some smaller ones while investing significantly in the others to make them more efficient and competitive.

BUPA's enthusiasm for this strategy has not lasted long, however. This week the firm said that it was considering the possible sale of its 26 remaining hospitals in Britain. In a statement on April 9th, the board confirmed that it was in “preliminary discussions with potential purchasers of BUPA hospitals”.

The abrupt change of plan follows a difficult year for the firm's hospital business. Underlying revenue and operating surplus fell by 1% in 2006. Outpatient and diagnostic treatments and cosmetic surgery did well but the hospitals suffered from a reduction in work for the NHS.

BUPA's other businesses did much better. Revenue in the firm's main insurance division, which covers Irish as well as British customers, rose by 7%. It increased by 13% in the international business, which provides private medical insurance to more than 3m customers, mainly in Spain, Australia and the Middle East.

BUPA's re-rethink seems to make strategic sense. Medical insurance dominates its activities: the main division accounted for 43% of the firm's total turnover of £4.2 billion in 2006; the international arm for 32%. Care homes, considerably more profitable than hospitals, represented 14% of revenue; and the hospital business was the smallest, making up 11%. If the sale goes ahead, BUPA will be able to plough back the proceeds into the larger and more dynamic parts of the firm.

What is good for BUPA may not, however, be so good for the NHS. If the company's hospitals go to a rival, that will lead to greater concentration in the private market. Already a consortium led by Netcare, a South African firm that was among the successful bidders for the NHS tender, has acquired BMI Healthcare, the biggest chain of independent hospitals. The government had hoped that a vigorous external market in hospital care would reinforce its internal market in the health service. That objective may be thwarted if the private sector becomes too concentrated.

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Lie detectors

Ministry of truth

Apr 12th 2007
From The Economist print edition

Polygraphs hit the big time

IN ANCIENT China suspected liars were sometimes required to hold rice in their mouths while their alleged misdemeanours were read out. A dry mouth was thought to be a symptom of a guilty conscience, so subsequent examination of the rice offered an easy indication as to innocence or guilt. The idea that lying produces physical symptoms found its modern expression in America in the early 20th century, with the invention of the polygraph, the “lie detector” so beloved of spy films and pulp detective novels.

Polygraphs are much used in the land of their invention, but Britain has traditionally been rather disdainful. That may be changing. On April 5th John Hutton, the work and pensions secretary, announced plans to test telephone-based technology to spot potential benefit cheats. A separate pilot scheme that has used polygraphs to monitor sex offenders on probation since 2003 is also set to be expanded. The results, published last December, so impressed the Home Office that it wants to make the tests mandatory throughout the country.

The news has re-ignited an old debate about the reliability of such devices. Traditional polygraphs, the sort used in the sex-offender trial, measure changes in physiology—usually breathing rate, blood pressure and sweating. Mr Hutton's proposed machines, which are already used by insurance firms, work in the same way but focus on speech patterns. The idea is that telling porkies is stressful, so jumps in these readings indicate whether a subject is lying. The trouble, say critics, is that many things—fear, embarrassment, worry at being wrongfully accused—can produce similar readings. Wily suspects may try to raise their baseline readings artificially (by doing mental arithmetic, for example), making later fibs more difficult to detect.

Enthusiasts claim that their machines can spot liars with 90% accuracy. The British Psychological Society cites several studies that put the rate at around 85%. But it gives warning that, due to problems with the studies used, the real accuracy rate is probably much lower. And spotting the guilty is only half the story anyway; polygraphs are much worse at clearing the innocent. “False positive” rates (wrongfully accusing an innocent person) can be as high as 47%.

The government acknowledges problems. It says it will not use polygraphs to determine guilt but only to prompt investigation. Dodgy-sounding benefits claimants will have their records checked; sex offenders will be watched more closely. Such assurances do not mollify all critics. Some question the need for Mr Hutton's scheme, pointing out that his department claims to have cut benefit fraud by two-thirds in the past five years without it.

Left-wingers worry that the government is testing the technology on the poor and the criminal because such people are unlikely to complain. They may have a point. Benefit fraud cost taxpayers £700m last year. Tax-dodging costs tens of billions a year. Perhaps the Inland Revenue should take note?

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Reproductive rights

Alone at last

Apr 12th 2007
From The Economist print edition

A controversial ruling denies a woman her last chance of childbearing

NATALLIE EVANS said she felt distraught, and she looked it. Made infertile by treatment for ovarian cancer in 2001, she had just lost her last chance of giving birth to her own child. On April 10th the European Court of Human Rights in Strasbourg upheld a series of English court decisions, ruling that she had no right to use frozen embryos, formed before her treatment by in vitro fertilisation (IVF) of her still-healthy eggs with the sperm of her then fiancé, without the man's consent.

Under English law, both partners are required to give consent before embryos are created and again when they are implanted to try to produce a baby. But either party can withdraw consent to continued IVF treatment up to the time of the embryo's implantation in the womb. Howard Johnson, Ms Evans's former partner, decided to exercise that right after the couple split up five years ago. The six embryos they made together will now probably be destroyed.

Mr Johnson said he had always insisted he did not want the emotional or financial burden of fathering a child he would not be bringing up. He should be free to choose when and with whom to start a family, he asserted. But Ms Evans argued that, because of her greater “physical and emotional expenditure” in the IVF process, her wishes should take precedence. The embryos' right to life and her own right to a family life were being violated by Mr Johnson's decision to withdraw his consent, she claimed. But the judges said they did not consider that her right to become the mother of a baby that was genetically hers deserved greater respect than Mr Johnson's right not to have a child with her.

There is no international consensus on these emotionally fraught issues. Most European countries seem to follow Britain in allowing either party to withdraw consent at any stage up to implantation. But in Hungary a woman has the right to proceed with IVF treatment in the teeth of her partner's opposition. In Austria, Italy and Estonia, the man's consent can be revoked only up to fertilisation. In Spain a man may withdraw his consent only if he is married to his partner and living with her. And in America, where there is almost no formal regulation, the courts usually decide in the event of a dispute.

Two years ago, in recognition of the anguish of women such as Ms Evans, the British government announced plans to review the law on IVF, saying it would publish its proposals “in due course”. The British are still waiting.

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Nuclear proliferation

How to get a handle on the axis

Apr 12th 2007
From The Economist print edition

AP

Financial sanctions have a big place in a tool-box designed to thwart the proliferators of Pyongyang and Tehran

Get article background

THIS hasn't been the finest week for the effort to curb the nuclear ambitions of the two states which, along with Saddam Hussein's Iraq, were once consigned by George Bush to an “axis of evil”.

North Korea, which shocked the world with a nuclear-bomb test last October, looks like missing an April 14th deadline—agreed two months ago in six-party talks with America, China, South Korea, Japan and Russia—to shut down and seal its Yongbyon nuclear reactor, and the related facilities for extracting bomb-useable plutonium from its fuel rods.

Meanwhile, on April 9th, Iran's President Mahmoud Ahmadinejad (above), announced to much ballyhoo and the strains of a “nuclear symphony” that its technicians could enrich uranium (for reactor fuel, not bombs, he says) “on an industrial scale” at its underground plant at Natanz.

To hawkish critics of Mr Bush's readiness to negotiate with both North Korea and Iran (if only the latter would suspend its uranium and plutonium work as the UN Security Council has demanded) on nuclear matters, these setbacks are not unconnected. The two countries collude closely on increasingly far-flying missiles; some suspect them of doing joint nuclear work, too. The critics worry that an American concession to get North Korea back to the negotiating table two months ago—the unfreezing of $25m worth of North Korean funds held at a Macau-based bank, which America's Treasury Department had identified as coming partly from other illicit activities, such as counterfeiting—will incur a cost. It could make stripping Kim Jong Il of his nuclear weapons that much harder, and further embolden Iran. Yet the broader knock-on effects of America's latest moves over Macau-based Banco Delta Asia (BDA) are unclear, and it may turn out that they are not all bad.

Mr Kim was furious when America accused BDA in September 2005 of turning a blind eye to his laundering of ill-gotten gains (a charge it denies), and when he found his accounts there frozen. North Korean negotiators have been refusing to close down Yongbyon—the first step in a deal agreed in February to implement an earlier vow by North Korea to abandon its weapons programmes—until he gets his millions back. Inspectors from the International Atomic Energy Agency (IAEA), supposed to monitor the shutdown, have been cooling their heels for weeks.

The next stages of the February deal are supposed to see North Korea owning up to and eventually disabling all its nuclear-related facilities. But it is still not clear that Mr Kim intends ever to give up his bombs. His officials are said to have demanded privately that America instead recognise North Korea as a nuclear power, and treat it like India (which also built nuclear weapons to loud condemnation, but is now forging a deal with America to gain de facto recognition as a nuclear power).

For now Mr Kim, with his money tied up for months, is disinclined to press that demand. Much will depend on whether South Korea and China, which supply much food and other aid to North Korea, can calibrate their help in ways that keep Mr Kim on the right path. North Korea is also under mandatory UN economic sanctions as a consequence of last year's nuclear test and it remains to be seen if other countries will now keep up this pressure.

Yet for bankers and businessmen, whether their dealings are with North Korea or Iran, there is a moral of a different sort in the BDA story. Freeing up Mr Kim's funds at the bank, even with America's willing assistance, has proved far easier said than done. This was in part because China is nervous at allowing identifiably “laundered” funds to flow out through its banking system. It also still “deeply regrets” America's decision last month, when it agreed to see the Kim cash released, to designate BDA formally as a money-laundering concern; that obliges American banks and firms to cut all ties with it, and puts the bank's future further in doubt.

The move against BDA also deters others from doing business with Mr Kim. The hope, presumably, is that the bank's ongoing troubles will compound the deterrent effect. And it suggests that, although America does little trade with either North Korea or Iran, it still has ways of putting the squeeze on. North Korea was already fairly isolated; Iran is more deeply enmeshed in the world's trading and financial systems. That makes it a harder target for financial pressure, but not an impossible one.

Iran's announcement this week that it has mastered large-scale uranium enrichment has yet to be verified by international inspectors. But the claim alone was a raspberry aimed at last month's UN Security Council resolution, which will extend sanctions on individuals and companies involved in Iran's nuclear and missile programmes if it again fails to halt enrichment work before a 60-day deadline (a previous Security Council resolution had already been flouted).

The 3,000 centrifuge machines it now claims to have up and running at Natanz could eventually produce enough highly-enriched uranium (nuclear-power reactors require only low-enriched uranium) for about a bomb a year. Iran is thought still to be some way off being able to do all that—if bomb-making is indeed its aim. But its defiance heightens concern.

That may be Mr Ahmadinejad's intention: creating nuclear facts on the ground faster than diplomats from Europe, America, Russia and China can manage to step up international pressure against him. At the UN, the diplomacy has at times been tortuous. Outside the UN, however, things have been moving more speedily.

Taking their cue from the BDA saga, senior American Treasury and State Department officials have for months been criss-crossing the world to point out the growing risks of doing business with Iran. The message has started to sink in: several European banks have already announced they will no longer do business with Iran in dollars (and are said to be cutting exposure in other currencies too); scores of other banks and companies in Europe and Asia have cut new business there sharply.

More slowly than America would like, a number of European governments and Japan have also started to cut back export credits that finance trade. And since just under 25% of Iran's exports and over 40% of its imports are with the European Union alone, this can be expected to pinch.

Unlike America, EU countries until now have lacked the powers to bar companies and banks from doing business with Iran. But on April 19th new EU-wide regulations are to be published that will implement last December's first UN resolution, allowing sanctions to be imposed against named companies and individuals. Other restrictions are expected to follow. Iran is already finding it more costly to do business. It can count on only short-term credit. And it is having problems attracting investment for its oil and gas industries.

Will this help deflect it from its nuclear path? American officials say they will be patient and let the diplomacy, inside and outside the Security Council, take effect. But, says one senior official, the tougher countries are prepared to be on Iran now, the less likely it is in future that anyone will be tempted to reach for other options “famously on the table”.

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Economist.com WORLD INTERNATIONAL

The World Bank

The Wolfowitz affair

Apr 12th 2007 | WASHINGTON, DC
From The Economist print edition

A sweetheart deal leaves a sour taste in many mouths

UNDER the demanding but not always inspiring leadership of Paul Wolfowitz, the World Bank has toiled hard for the past year, hammering out a strategy to fight corruption until every last detail was in place. In its finally approved form, that well-honed document has much to say about the vital role of a “vibrant civil society” and “competitive media” in holding officials' feet to the fire.

But as he prepares to welcome ministers to the bank's spring meetings in Washington, DC, on April 14th and 15th, Mr Wolfowitz's own toes (so memorably exposed when he doffed his shoes during a visit to a Turkish mosque) may feel a bit toasty. For that, he can thank the Government Accountability Project (GAP), a vibrant participant in America's civil society—and the document it has fed to competitive media still far more fascinated by the man than by the organisation that he has run for almost two years.

AFP

A neocon at bay

The document in question is the salary history of Mr Wolfowitz's girlfriend, Shaha Riza, who was working at the bank at the time of his arrival. Three months later, Ms Riza was posted to America's State Department at the insistence of the bank's ethics committee, which was not happy for one sweetheart to supervise another. What has raised eyebrows and greened complexions in Washington in recent weeks is the deal's super-generous financial terms: before she left the bank, Ms Riza was earning $132,660. Two big pay hikes later, she takes home $193,590, much more than the secretary of state herself.

According to the bank's anti-corruption strategy, the public disclosure of income and assets “can help to enhance the credibility of decision-makers”. But when Mr Wolfowitz's incredulous underlings read about these handsome sums in the *Washington Post* on March 28th, they flooded their staff association with expressions of “concern, dismay and outrage”; the association duly agreed that Ms Riza's terms were “grossly out of line” with staff rules and “extraordinarily discouraging” to bank minions whose entire annual pay was less than Ms Riza's rise.

How much did Mr Wolfowitz help her cut the deal? That is what the bank's board of executive directors is now investigating. On April 9th, in a statement to staff, he insisted he had upheld the rules, but pointed out that Ms Riza's case was “unprecedented”, in part because her external posting was involuntary and for longer than usual. Whatever his precise involvement, his girlfriend and her lawyer clearly found themselves in a strong bargaining position when haggling over terms with the bank's personnel chief, Xavier Coll, who was said by the *Financial Times* to have received direct written instructions from Mr Wolfowitz.

The bank's staff appear in no mood to give their boss the benefit of the doubt. They have little trust in hiring decisions, the staff association says, because the rules are “ignored or are applied unevenly”. It has already rebuked Mr Wolfowitz over the manner of some previous appointments, like that of Suzanne Folsom, who was selected to head his internal corruption watchdog in preference to any of the nine names identified by a search committee.

More damaging than the posts he has filled are those he has left vacant for long periods. The bank has only just appointed a new vice-president for Africa, for example, four months after Gobind Nankani left the job. According to the GAP, the money committed to poor African countries amounted to about $1.8 billion in the first nine months of this fiscal year, which ends on June 30th, 35% less than it had committed by the same point last year.

The staff have never taken Mr Wolfowitz to their hearts, but the reasons for their suspicion have evolved. At first, they were on the lookout for signs of neoconservative zeal. Would Mr Wolfowitz conscript the bank to the cause of “transformational diplomacy” (as Ms Riza's lesser-paid colleague, Condoleezza Rice, might put it), devoting its know-how and money to changing the character of disaffected regimes? Now, the fear is not an excess of ambition, but a lack of traction; not that Mr Wolfowitz will overreach, but that he fails to follow through. He cannot count on a second term, should he even want one, and five years is scant time to make an impression on an institution as unbiddable as the World Bank. The bank braced itself for the audacity of the first Bush administration. Instead it seems to have got the distracted stagnation of the second.

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Censorship and the internet

Whose tube?

Apr 12th 2007 | BANGKOK AND ISTANBUL
From The Economist print edition

For Thais and Turks, shielding a revered figure from cyber-insults proves tricky

AT FIRST sight, anyway, it seems like one more case of a clumsy, authoritarian government being wrong-footed by nimble creatures from cyberspace who acknowledge no borders and can leap effortlessly over almost any obstacle. YouTube, the website that dominates the market in user-generated, online videos (or in plain language, a place where almost anybody can post a film about almost anything) has been blocked by Thailand's military-backed government. The ban was imposed in a fit of indignation over a 44-second clip that mocked the country's monarch. It was a crude bit of work, showing King Bhumibol Adulyadej with feet over his face and mouth, an image certain to offend Thai Buddhists.

AP

The rising price of cyber-freedom

Given that last year's coup in Bangkok was presented as an action carried out in the name of the king, Thailand's rulers have a big stake in the sovereign's prestige. Hence their demand to the California-based site (bought last year by Google for $1.65 billion) to scrap the offensive material; and their decision, when faced with YouTube's refusal, to block access to the whole site. “When they decide to withdraw the clip, we'll withdraw the ban,” snapped Sitthichai Pookaiyaudom, the communications minister.

But if the aim was to shore up the law against *lèse-majesté* (under which a Swiss man was jailed for ten years for defacing portraits of the king and queen, only to be pardoned this week), it backfired. Within days of the site being blocked in Thailand, the clip was seen 16,000 times by people round the world. Then the clip was removed (by its maker) but many others, also insulting to the king, were posted.

YouTube commented that the site had not broken American law, and pointed out that it was replete with negative images of other leaders, like George Bush. Some Thais reacted peevishly; they pointed out that YouTube's parent, Google, does co-operate with China's authorities as they block subversive material from the Chinese version of the search engine. But quite a lot of Thais blamed the government for turning an obscure bit of nonsense into a global free-speech issue. And Bangkok's youngsters, as internet-savvy as their counterparts all over the world, rushed to view the anti-royalist footage on alternative providers.

To those who follow the politics of the internet, the story instantly recalled one that unfolded in Turkey a few weeks earlier. An Istanbul court told the newly privatised service provider, Turk Telekom, to ban access to YouTube after it carried a video-clip, submitted by a user with a Greek-sounding name, portraying Turkey's state founder, Kemal Ataturk, as a boastful, grotesque-looking homosexual. The judge's move followed a barrage of e-mails (220,000 in a single day) that expressed outrage over the desecration of a revered statesman. But within minutes of the ban, YouTube fans realised they could still gain access to the site through other providers—and just as in Thailand, a mood of indignation over insults to a sacrosanct figure gave way (among some citizens) to a sense of anger that the authorities had used sledgehammer tactics. “The ban shows that Turkey has not caught up with the reality of

modern technology," said Cihat Selim, an internet pundit. The Turkish tale, at least, has a happy-ish ending; the ban was lifted after the controversial clip was removed.

YouTube says it interferes as little as possible with the material on the site; but it does block "hate speech" and material that is offensive on grounds of race, religion or sexual orientation, as well as extreme violence and explicit sex. (The latter rule was cited in Brazil earlier this year when film of a model cavorting with her boyfriend led to a block for several days—followed by a plethora of ironic imitations.)

One of Google's regulation wonks, Andrew McLaughlin, said the firm obeys the law wherever it operates—but given that it has no office or staff in Thailand, it is not a Thai service or subject to Thai law.

Tim Wu, an internet expert at Columbia Law School in New York, says sites like YouTube face huge problems if they wield editorial power, and huge problems if they don't. Wherever possible, they will stick to the latter course, because as soon as they make any decision about editorial issues they will risk accepting responsibility for the site's whole contents. At the moment, says Mr Wu, sites can say they are no more responsible for the way their space is used than telephone companies are for crimes discussed by users of their lines. The sites would love to keep things as simple as that, but in a world of clashing ideas about the limits of decency, blasphemy and dissent, that is going to be very hard.

Nor will all government pressure on sites and providers have to do with high politics or ancient traditions. Britain's education minister, Alan Johnson, said this week that internet sites had a "moral obligation" to stop pupils posting videos that demean teachers or other children.

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Land of promise

Apr 12th 2007
From The Economist print edition

Reuters

Brazil is big, democratic, stable and rich in resources, says Brooke Unger (interviewed here). So why is it not doing a lot better?

Get article background

ON THE right bank of the wide channel that constitutes the port of Santos, Brazil's biggest, the *Orange Wave* awaits a charge of orange juice for delivery to New Jersey. The *North King*, of Panamanian registry, is taking on soya grown somewhere between Brazil's temperate south and the savannahs of the centre-west. Further on gleaming ranks of cars await their vessel. Portside terminals, once owned by the state, now display corporate heraldry: the logos of COSAN, a sugar and ethanol producer; Bunge, a global food trader; and America's Dow Chemical. Last year Santos broke its 1909 record for exporting coffee, the commodity that midwifed the port in the 19th century.

The Victorian majesty of berthed ships gives no hint of the difficulties the cargo must overcome on its way to and from Santos, which handles 27% of Brazil's international trade. For soya these can start in the field, where scarce storage sometimes forces growers to dispatch it to port regardless of price. Then it faces a bumpy journey on potholed roads (80% of the cargo arrives in Santos by lorry rather than by rail). Privatisation of the terminals and better traffic management have boosted the port's efficiency, but ships must still await high tide to clear the channel, which is 2m (over six feet) shallower than it should be. The state environment regulator is withholding permission to deepen it. Transport costs consume nearly 13% of Brazil's GDP, five percentage points more than in the United States, according to Paulo Fleury of COPPEAD, a business school in Rio de Janeiro. And that is only a small part of the burden that businessmen refer to despairingly as *custo Brasil* (the cost of Brazil).

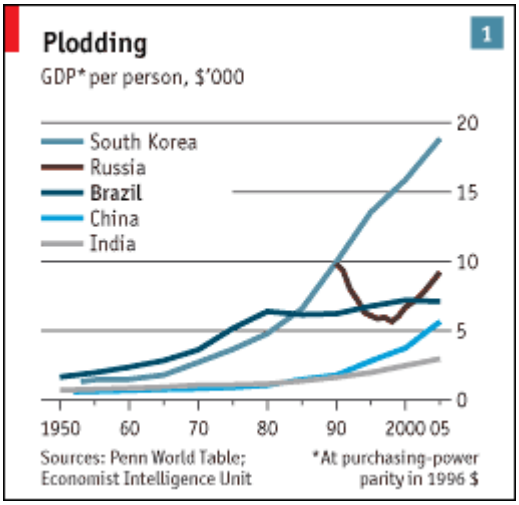
Exchange rates
Brazilian *real*, March 30th 2007

$1=	2.05	€1=	2.72
¥100=	1.73	£1=	4.01

Fecundity and frustration sum up the state of Brazil these days. It is bursting with the commodities coveted by the rising economies of Asia, from soya to iron ore. No other country is better placed to cash in on the global craze for biofuels. Yet Brazil refuses to grow in line with the expectations of its 188m people. Since the end of the “miracle years” of the 1960s and 70s, when it was the world's second-fastest-growing large economy, Brazil has lagged (see chart 1). In the past four years, whereas developing countries as a whole have grown at an average of 7.3%, Brazil has loped along at 3.3%.

In 2003 Goldman Sachs, an investment bank, selected Brazil, along with Russia, India and China, as one of the four “BRICs”—the developing countries that would share dominance of the world

economy by 2050. It has been the slowest-growing by far, leading some Brazilians to wonder whether the “B” would be dropped. South Korea's income per person overtook Brazil's in the 1980s; it may not be so long before China's and India's do the same.



Brazilians have non-economic grounds to fret, too. In its first crack at national power the Workers' Party (PT) of President Luiz Inácio Lula da Silva—which used to crusade against corruption—orchestrated a baroque scheme involving bribes to Congressmen in exchange for votes, known as the *mensalão* (monthly allowance). The Congress that ended its four-year mandate in December is widely reviled as “the worst in history”. Within the past year Brazil's two biggest cities, São Paulo and Rio de Janeiro, have been terrorised by gangs operating from inside the prison system. Education, perhaps Brazil's biggest failing, seems to be getting worse rather than better. Air travel has been crippled following the mid-air collision last year between a passenger plane and an executive jet. Brazil is “falling to pieces”, lamented Lya Luft, a columnist for *Veja*, the biggest news magazine, last year.

What's the problem?

If so, many Brazilians appear not to have noticed. President Lula resoundingly won re-election last October, largely on the strength of support from the poor. Their living standards have been soaring, thanks in part to handouts from the federal government. Income inequality, from which Brazil suffers more than most other countries, has at last begun to shrink.

The same is true of inflation and its lingering symptom, high real interest rates. The introduction of the *real* as Brazil's currency in 1994 ended decades of high inflation. Many observers feared that Lula would rekindle it when he was first elected president in 2002. His PT had opposed the Real Plan. The risk premium on Brazil's bonds soared. But Lula realised that inflation hit the poor most. Defying his *companheiros*, he has entrenched stability, faithfully sticking to the policy “tripod” put in place by his predecessor and political foe, Fernando Henrique Cardoso: a primary surplus (ie, before interest payments) high enough to reduce debt as a share of GDP, a floating exchange rate and inflation targets.

Helped by global enthusiasm for Brazil's goods and financial securities, the Cardoso-Lula tandem has wrought an economic miracle of a different sort. Inflation last year was only 3%, below the target of 4.5% set by the central bank. The markets expect it to remain below target this year. Real interest rates are at their lowest level since 2001. The risk of a panic abroad triggering a crisis at home, which often happened during the 1990s, has diminished. Exports and the trade surplus have soared (see chart 2), pushing foreign-exchange reserves above $100 billion. When Brazil became independent in 1822 Britain insisted that it assume the debts of the Portuguese crown. Now Brazil's government is an international creditor. An investment-grade credit rating is probably only a matter of time. When Lula finishes his second term in 2010 Brazil will have enjoyed “16 years of stability and predictability”, says Mailson da Nóbrega, a former finance minister who now heads Tendências, a consultancy. That is an important and sometimes underrated discount on *custo Brasil*.

In some ways Brazil is the steadiest of the BRICs. Unlike China and Russia it is a full-blooded democracy; unlike India it has no serious disputes with its neighbours. It is the only BRIC without a nuclear bomb. The Heritage Foundation's “Economic Freedom Index”, which measures such factors as protection of property rights and free trade, ranks Brazil (“moderately free”) above the other BRICs (“mostly unfree”). One of the main reasons why Brazil's growth has been slower than China's and India's is that Brazil is richer and more urbanised.

This survey will argue that disgruntlement persists because Brazil is a battleground between progress and inertia. Since independence was proclaimed by the son of the Portuguese king, Brazil has been

adding layer upon layer of change rather than sweeping away the old and starting afresh. The 1988 constitution, which restored democracy after 20 years of military dictatorship, did not abolish the culture of *cordialidade*, which in politics means the primacy of personal bonds over rules. Liberties and electoral rights are entrenched, says the former president, Mr Cardoso, “but there's a lack of citizenship, of respect for the law. Democracy means that, too.”

Too much, too soon

The constitution too readily created rights—of bureaucrats to job protection, of sub-national governments to tax revenues, of ordinary citizens to government transfers—that Brazil can ill afford. They help explain why real interest rates remain among the highest in the world, why public investment in roads, ports and other infrastructure is stunted and why the tax burden befits a rich European welfare state rather than a young developing economy.

Brazil is thus in the midst of a slow metamorphosis in its economy, society and polity. “Contemporary Brazil is a hybrid between two moralities: one unequal and hierarchical, the other universal and egalitarian,” argues Jacqueline Muniz, an anthropologist in Rio de Janeiro. Rigid legalism sits alongside rampant illegality, and a vibrant private sector coexists with a sclerotic state. President Lula, who presented himself as the scourge of old-style oligarchs, now governs with their help. Few modernisers are untainted by the past.

Although progress is slow, Brazil's institutions are now strong enough to make it reasonably sure. Goldman Sachs recently reaffirmed the country's BRIC status. Economic growth may top 4% this year. When GDP figures were revised in March, Brazil discovered that it was richer and less indebted than it had thought. It could do better still. But that would require another insight from Lula, as important as his conversion to low inflation: that the main obstacle to progress is the state itself.

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Heavy going

Apr 12th 2007
From The Economist print edition

The biggest enemy of Brazil's promise is an overbearing state

Get article background

IN 2002 Caio Mesquita and Marcelo Ferraz quit jobs in finance and publishing respectively to start Wraps, purveyors of “healthy and tasty” meals at seven restaurants across São Paulo. Sometimes they wonder why. Their competitors evade taxes (one trick is to put individual eateries in the names of friends and relatives to qualify for small-business tax breaks). The labour laws, they say, “are almost impossible to comply with” (although they do): people who wash dishes are not allowed to clean tables, and vice versa. Of the seven staff in Wraps' corporate headquarters, two do nothing but ward off lawsuits from former employees. The readers of water and electricity meters sought bribes to cut their bills. A policeman who came to investigate a robbery was more interested in selling his private security service. “I felt like I was in Baghdad,” says Mr Ferraz.

To experience the state as meddlesome, covetous, inefficient and corrupt is no rarity in Brazil, and no novelty either. Marcos Fernandes of the Fundação Getulio Vargas, a business school, traces the origin of a “rent-seeking state” to 1808, when Napoleon chased Portugal's royal family to Brazil. Mussolini helped inspire the Estado Novo of President Getúlio Vargas in 1937, whose system of labour and industrial syndicates is the basis of today's labour relations. The 1988 constitution was politically liberating but economically stifling. Indeed, Brazil's modest growth is a triumph over state-sponsored adversity.

The Brazilian formula is to crowd out enterprise or drive it underground with excessive spending and taxation, then to harass it further with capricious, nonsensical regulation. Last year the state's tax take set another in a series of records, at 35% of GDP, much higher than the average of its developing-country peers (see chart 3). No surprise, then, that the grey market accounts for a much higher proportion of the economy than in Mexico, China or India, according to the International Finance Corporation (IFC), part of the World Bank. Informal firms underinvest and weaken their formal-sector competitors. McKinsey, a consultancy, thinks this is the biggest drag on productivity. Infrastructure investment, now shy of 2% of GDP, should be at least 3%. To match South Korea's infrastructure Brazil would have to treble that, according to the World Bank. Despite its free-spending ways, the state cannot afford to do that, yet it has discouraged the private sector from filling the gap. Overall investment, though growing, is an underpowered 16.7% of GDP.

The political left blames the central bank for keeping interest rates high. But most of the responsibility lies with the state's excesses, which have built up a net public debt running at 45% of GDP and are now stoking demand while restraining supply. The solutions lie in a long to-do list of reforms which has been around for years without making much headway. The tax system, pensions and labour laws are all in need of redesign; trade needs to be liberalised further; spending should be more flexible; and the central bank should be given formal autonomy (in practice it gets a free hand to hit inflation targets).

All this is part of a more ambitious project that is not on the political agenda: a thorough review of the role of the state, which would reconsider how it taxes and spends, how it makes and enforces rules and to what extent it should be directly involved in finance and infrastructure.

Spend it wisely

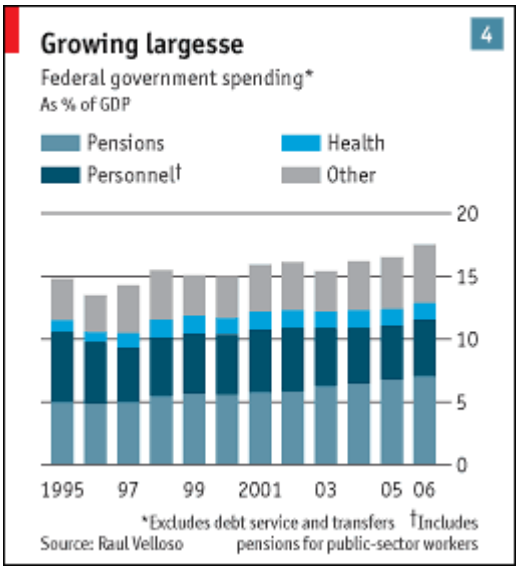
Apart from debt service, the federal government spends its

money mainly on three things: pensions, transfers to lower levels of government and its own bureaucracy. In none of these areas is spending efficient or equitable. Take pensions. Brazil is a young country with the pension costs of an old one. With 6% of its population over the age of 65, Brazil spends 11% of its GDP on publicly financed pensions. A big chunk of this goes to workers in the formal sector, who can retire after contributing to the system for 35 years (30 for women) regardless of their age. More than 60% of workers who benefit from this scheme retire by the age of 54. Besides Brazil, only a few big oil-exporting countries have such an indulgent system, says Fabio Giambiagi of IPEA, a think-tank with links to the government. In his second term as president Mr Cardoso tweaked the rules to discourage early retirement, but that provoked an explosion of claims for disability benefits, which trebled between 2001 and 2005.

Two-thirds of all pensions pay out the equivalent of the minimum salary (now 380 reais a month), which has doubled in real value since 1994. Many of these go to beneficiaries who have not paid into the system. This encourages people to work in the informal sector, because if they will get that pension anyway they have no incentive to contribute. Demographers have noticed an unusual upsurge in marriages between pensioners and much younger partners in the countryside, probably provoked by this benefit. Spending on pensions in the private sector has risen from below 6% of GDP in 1996 to 8% now.

On top of that comes the cost of public servants' pensions, which is about half that of the private-sector scheme but benefits a group of people only one-eighth the size. One of the Lula government's first—and bravest—acts was to raise the minimum retirement age for public servants and to tax people on high earnings who had previously retired with a pay rise.

The federal government's second big task is to transfer revenue raised primarily in the rich states of the south-east to state and municipal governments mainly in poorer states. These transfers more than doubled in real terms between 1995 and 2004. Such redistribution is justified by Brazil's regional inequalities, which persist despite the spread of industry beyond its São Paulo heartland. Average income in the north-east is only two-fifths that in the south-east.



Transfers play an important part in holding the country together; they are “why we don't have separatism”, says José Roberto Afonso, a specialist in public finance. But the money, spent mainly on health, education and administration, rains down on 27 states and 5,564 districts that differ vastly in their capacity to spend it well. Despite the redistributive intent, some of the criteria applied militate against justice and efficiency. Brazil's federal system makes no distinction between forested provinces and the metropolis of São Paulo with its population of 10.8m. “Every municipality has competence to do everything, which is absurd,” says Raquel Rolnik, the national urban secretary. “Most don't have capacity.” More than half rely for most of their revenue on transfers from federal and state government.

Revenue without responsibility is a bad idea. The more that municipalities depend on transfers, the more they spend on administration and the less they invest in infrastucture and social programmes. States that get a lot of their revenue from the central government pay bureaucrats more relative to private-sector workers. A minimum grant for municipalities was supposed to help the poorer ones, but also encouraged hundreds of them to break themselves up into smaller and less efficient units. It also disproportionately benefited the rich south and south-east, which has most of the smaller districts. The constitution stipulates that health spending must rise with GDP, guaranteeing that much of it will be wasted.

Fat and flabby

The bureaucracy, the third big spending category, is neither lean nor agile. On average, public servants earn more than twice as much as workers in the private sector and have an easier life. The constitution protects them from dismissal. Merit tends to be measured by the number of training courses they have attended rather than by their competence. Some 20,000 federal jobs are filled by political appointees. Nelson Marconi, of the Fundação Getulio Vargas, believes that public employment could “easily” be slashed by 30% without making services worse.

Successive governments have, in effect, built a fiscal escalator that mainly goes up. Presidents can, and often do, speed its ascent, for example by raising the minimum wage, but have enormous trouble slowing it down. Financial catastrophe has been avoided by raising taxes and squeezing investment. But, says Raul Velloso, an expert on public finance, investment has a floor and taxation a ceiling. The government's “growth acceleration package”, announced in January, tries harder to lift investment than to lower taxes, and allows for the possibility of a lower primary surplus to pay for it. That can work as long as interest rates are falling. But if the balmy financial weather changes, the government will face hard choices.

What Brazil loses in efficiency it does not gain in poverty alleviation. Because most revenue comes from consumption taxes, a Brazilian earning less than twice the minimum wage pays out nearly half his income in tax, whereas someone on 30 times the minimum wage pays only about a quarter in tax. Such benefits as pensions and free tuition at public universities flow disproportionately to the well-off. In a recent study comparing the redistributive effects of taxation and spending in 16 countries, most of them rich, Brazil came last by a long way.

Government bureaucracy can be damaging too. In a league table of the ease of doing business in 175 countries, the IFC ranked Brazil 121st. The average firm takes 2,600 hours to process its taxes, a world record. Opening a business, on average, requires 17 procedures and 152 days, putting Brazil in 115th place. Hiring people is expensive because taxes add 60% to salaries and workplace rules are an invitation to conflict. At Unibanco, a big private-sector bank, the turnstiles are programmed to keep workers out of the building until a minute after their allotted lunch hour; a minute too soon and they could demand extra pay. Despite such precautions, the banking sector alone is embroiled in 160,000 cases in the labour courts, which are faced with a total of 2m new cases a year. The solution? “Try to have as few people as you can,” says Pedro Moreira Salles, the bank's boss.

Investing in infrastructure is a legal and regulatory adventure. Investors do not trust the supposedly independent regulatory agencies. Brazil's finance minister, Guido Mantega, insists that “it's not true that the government is hostile to regulatory agencies.” But the World Bank maintains that “the majority of the agencies do not have full autonomy and are subject to interference from other [government] organs.” Courts can delay projects for years at the behest of angry environmentalists or disappointed bidders. “It always takes twice as long as you estimate to implement an infrastructure project in Brazil,” says one financier.

At your service

Brazilians yearn for a state that behaves like the servant of its citizens. Raymundo Magliano, the president of the São Paulo stock exchange, ended a recent interview by recalling a trip to the Antipodes, where bureaucrats in New Zealand have no job security and the tour guide at the parliament in Canberra knows exactly how much the institution costs each Australian citizen. Brazil is not ready for that. Too many lobbies have an interest in keeping the system as it is.

Despite the grumbling, there have been some successes. Judicial reform was “one of the few that advanced”, says Joaquim Falcão, a member of a council newly created to oversee the judiciary. It cracked down on nepotism, resulting in “thousands” of dismissals over the past two years. The *súmula vinculante*, a new mechanism under which lower courts have to follow the Supreme Court's decisions, will strip “millions of cases” out of the clogged court system, Mr Falcão predicts. State governments are speeding up procedures for opening businesses. The federal government recently ended the monopoly of the state-owned reinsurance underwriter. A new regulatory framework for sanitation should encourage private investment.

Lula's critics indict him as a lucky bumbler who may have kept Brazil out of trouble but has done nothing to improve its prospects. That is not entirely true. But his second term may be less productive than his

first. His main economic initiative aims to simplify an incredibly cumbersome system of state-based sales taxes, laying the groundwork for a national value-added tax. That would be wonderful, but it depends on the government buying off the potential losers. The government has started to tackle fraud in the pension system and has created a forum with business and labour representatives to deal with knottier pension problems, but this looks more like a device for avoiding the issue. Other high-profile plans, such as labour-market reform and central-bank autonomy, seem to be off the agenda. Dilma Rousseff, Lula's chief of staff, describes the growth acceleration package as “public money direct to the vein.” That, not reform, is the government's passion.

In spite of everything, Wraps is prospering. It is talking to a German entrepreneur about opening a branch in Frankfurt. Its habit of paying taxes and obeying the rules is making Wraps attractive to private-equity funds. Last year the chain's profits exceeded the return on investing in government bonds. That is big news.

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The blessings of stability

Apr 12th 2007
From The Economist print edition

Lower inflation has done wonders for finance and industry

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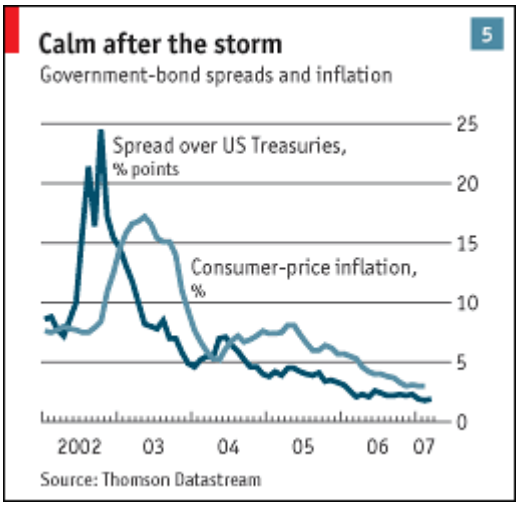
Lonely Planet Images

A property boom on the horizon

BRAZIL is the country of the future and always will be, goes a sour old joke. In fact, the opposite is true. Brazil has never put much stock in the future, and that has held it back. Brazil's three founding cultures lived for the present, argues Eduardo Giannetti, a philosopher and economist at IBMEC, a private university. Indigenous Brazilians had no need to plan; the Portuguese came for quick enrichment; and slaves, who did not even own their own bodies, had no reason to invest in anything. After a dozen years of economic stability, “Brazil is beginning to take a longer perspective,” says Mr Giannetti.

The effect has been subtle but far-reaching. Corner shops are gaining market share at the expense of supermarkets, against the global trend, because housewives no longer spend money as quickly as they get it to beat inflation, says Fábio Prado of Unilever, a consumer-goods giant. There is no longer a need for court-clogging lawsuits to challenge the way that savings and pensions are adjusted for inflation. Investment in innovation seems more worthwhile. Enterprises are planning for the long term and investors are beginning to back them.

Brazil's receding riskiness and a global abundance of liquidity have narrowed the difference in yields between Brazilian and American bonds to less than two percentage points, down from 24 points just before Lula was elected (see chart 5). The drop in domestic interest rates is pushing investors to look for alternatives to short-term government bonds. The economy may be trotting, but credit, property and the stockmarket are off at a gallop.



In the hyperinflationary 1980s, 70% of Unibanco's profits came from “float revenue”, placing free deposits in high-yield government paper. That financial child's play now accounts for only 1% of its income. As late as 2002, eight years into the *real* era, bank credit to the private sector amounted to less than a quarter of GDP. That has now leapt to 34%. Only in the past few years have banks launched themselves into large-scale lending, starting with credit cards and hire-purchase finance for consumers (still at absurdly high interest rates). More recently lower-rate loans secured on the borrower's pay cheque or pension have taken off. Big companies can raise money on the capital markets, but banks are still wary of lending to small business.

Enterprises raised a record 70 billion reais through debentures last year, 60% more than in 2005 and five times the level in 2002. The stockmarket last year set a 20-year record for the number of new listings. It used to be dominated by state-owned companies and enterprises that issue mainly non-voting shares, which enables cliques of shareholders to control them with relatively small financial stakes. The newcomers are a different breed. Almost all list on the Novo Mercado (new market), which mandates full voting rights for all shares and high standards of corporate governance. They leaven the stockmarket's menu of infrastructure companies and heavy industry with retailers, technology firms and airlines. Their managers are willing to risk control for growth.

Some are poised to change their industries. TOTVS, a supplier of management software, used nearly half of the 460m reais it raised to buy a rival. DASA, a chain of medical laboratories, is absorbing competitors

as it expands from its home market in São Paulo to the rest of Brazil and eventually to Latin America. COSAN plans to consolidate the ultra-fashionable sugar and ethanol industries. Last year set a record for mergers and acquisitions, fuelled in part by the capital raised through initial public offerings, says Cláudio de Leoni Ramos of KPMG, a consultancy. Many of the debutantes were ushered to the market by private-equity investors, who after a long delay can now take their profit and chase new opportunities.

Safe as houses

One of the biggest pay-offs from financial normality will come in property and construction. Property finance, throttled by inflation, low incomes and a legal system that failed to protect lenders, amounts to a negligible 3-4% of GDP. This leaves Brazil with a shortage of 8m houses and huge pent-up demand, especially from the poor, who tend to build their own dwellings one room at a time. Mexico has 60% of Brazil's population but builds four times the number of houses, says Sérgio Rossi of Rossi Residencial, a builder. Now builders lick their lips at the prospect of “Mexicanisation”, thanks to stability and better loan guarantees. Property and construction companies are prominent among those heading for the Novo Mercado.

Property lending doubled in 2006, partly because of lower interest rates and partly because arcane rule changes made it safer. Foreclosure can take up to 12 years with a traditional mortgage, but a newish type of loan, which withholds full control of the property until it is paid off, cuts the time of repossession to 12-18 months. This is part of a broader credit reform which is coaxing banks to take more risk. Under a law passed in 2005, lenders with collateral have moved ahead of the government in the creditors' queue for debtors' assets. The new law “has given confidence to lenders to approach companies which they would not have done under previous regulations”, says Unibanco's Mr Moreira Salles.

Normalisation has further to go. Deposits are still too short-term to allow banks to finance many property loans of 15 years or more, and finance is still too expensive for the mass of poor Brazilians who need it most. Builders are beginning to move down the economic pyramid, but slowly. Gafisa, a publicly quoted construction company, is starting a separate enterprise to build houses at prices up to 150,000 reais, but that is still out of most people's reach. The main benefit to the poor of a construction boom, at least at first, is likely to be the jobs it will create.

Another mouthwatering prospect is that of private investors underwriting the ports, power plants, roads, sewage and other infrastructure projects that Brazil so patently needs. There is plenty of money around. “Today, financing is not a serious problem,” says Martus Tavares of BRVias, a new infrastructure-investment firm. What is a problem is the state's obstructionism (see article). In January the government suspended a long-awaited concession of 2,600 km of federal roads on the ground that returns to investors of nearly 13%, the ceiling set by the government's audit court, would be too generous. At that rate, says Mr Tavares, more than 30 enterprises would have bid, possibly driving the yield lower. Below 12% there is “not much interest”.

The government is convinced that Brazil is on the verge of an investment-grade credit rating and economic growth of 5%. That is why investors are crowding around Brazilian infrastructure projects like thirsty sheep. If it comes to pass, any concession paying 13% (or more) will deliver a windfall. The government has shrewdly gauged investors' greed but overlooked their fear: that the projects will be mired in expensive delays, that the government will change the rules, or that an investment-grade rating will remain beyond reach.

But it would take a disaster to bring back the days when the only sensible thing to do with one's money was to spend it immediately, or else invest it in government paper. As Álvaro Gonçalves of Stratus, a private-equity firm, puts it, “the Brazilian economy is now turning toward the real sector.”

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The economy of heat

Apr 12th 2007
From The Economist print edition

Nature has been almost too kind to Brazil

Get article background

A PINE tree in a Finnish forest takes 50 years before it can be pulped and milled into paper. A eucalyptus tree in Espírito Santo, on Brazil's coast, is ready in seven. Growers in Petrolina, in Brazil's north-east, harvest grapes twice a year, twice as often as their competitors in France. Sadia, a meat producer, needs no electricity to heat its chicken houses, unlike its competitors in colder climates. Brazil has more than its fair share of the world's sun, soil and water, and in many of the products based on those ingredients, including soya, sugar and beef, it may become pre-eminent.

Eyevine

Brazil's new driving force

This natural advantage revives an old anxiety. For much of the 20th century countries at the periphery of the rich world lamented their dependence on commodities (for Brazil it was sugar, coffee and rubber) and yearned to become modern industrial economies. Beginning with Getúlio Vargas, a succession of strong presidents frogmarched Brazil into the industrial age, often with little regard for cost or competitive advantage. The partial opening of the economy in 1990 by the debonair Fernando Collor, who was later impeached for corruption, shocked industry into modernisation.

Now Brazilians worry about slipping back into their commodity-dependent role. Brazil's success in selling raw materials and other basic products pushes up the *real*, which makes other Brazilian exports less competitive and exposes industry to cheap imports, especially from China. This is leading to talk of “deindustrialisation” and “Dutch disease”. “We're competitive where nature has helped,” says Eugênio Staub, head of Gradiente. He does not count his company's televisions and mobile phones among the beneficiaries.

So far there is little evidence of wholesale deindustrialisation. The share of exports based on natural resources did rise sharply between 1989 and 2005, but half the gain came from petroleum, and manufacturers of medium- and high-technology goods also increased their shares slightly. A study by BNDES, the national development bank, concluded that there was no general shift in production to natural-resource-based industries.

But the *real* has stayed strong, and worries have grown. Last year the trade surplus in manufactures fell for the first time since 2000, notes Edgard Pereira, chief economist of IEDI, an industry association. The March revision of GDP figures showed that services had a bigger share and industry a smaller one than previously thought. Domestic consumption and investment are growing at a healthy pace but manufacturing is not keeping up, in part because demand is being filled by imports. Labour-intensive products such as shoes and clothing are under the most pressure. The (protected) car industry is booming, thanks to easier credit. But this year the strong *real* forced Volkswagen to scrap its plan to use Brazil as the export base for Europe of its compact Fox model. The country is in little danger of becoming an open-air greenhouse. But its economy may be starting to specialise, which is both painful and exhilarating.

Sweet smell of success

Luckily, the economy of heat is diverse. The showcase is ethanol. Brazil's variety, based on sugar cane, is cheaper than anyone else's and has encouraged a lot of innovation beyond the basic commodity. “With biofuels we're suddenly at the forefront,” says Fernando Reinach of Votorantim Novos Negócios, which runs a venture-capital fund that invests in ethanol technology.

This is a turnaround for the sugar business, previously notorious for exploited labour, insolvency and pollution. Ethanol got started after the oil-price shocks of the 1970s, when dictators induced the car industry to convert from petrol that Brazil could no longer afford. The Proálcool programme ended with a hangover around 1990 as oil prices fell and cane growers switched back from ethanol to sugar, infuriating drivers of ethanol-only cars.

But it left behind a system for distributing ethanol to petrol stations which suddenly looks like a national treasure, thanks to two recent developments. One is the Brazilian invention of flex-fuel cars which can run happily on any combination of ethanol and gasoline. Introduced in 2003, these cars, which enjoy a small government subsidy, cost no more than single-fuel models and now account for 83% of all new cars sold in Brazil.

The second is the belated realisation the world over that fossil fuels overheat the planet, are controlled by dodgy regimes and cost too much. In January President George Bush announced an American version of Proálcool—he wants to cut petrol consumption by one-fifth—and has since signed an agreement with President Lula to spread production and consumption of ethanol worldwide.

It will take a while for any other country to copy Brazil, where ethanol already accounts for 40% of the fuel used by cars. The United States insists on producing most of its ethanol from home-grown maize, which is more expensive than Brazil's cane-based version and burns up about seven times more fossil fuel per unit of energy produced. No other country can match Brazil's distribution network, so in the short term ethanol will be mostly an additive to fuel, not the main ingredient.

Too commodity-dependent? 6

Brazil's top export products, 2006

Product	Value, $bn	% of exports
Transport equipment	20.4	14.9
Metallurgical products	14.7	10.7
Oil and fuel	13.0	9.5
Mineral ores	9.8	7.1
Soyabeans & derivatives	9.3	6.8
Chemicals	9.1	6.6
Meats	8.5	6.2
Sugar and ethanol	7.8	5.7
Machinery & equipment	7.7	5.6
Electrical equipment	5.8	4.2
Paper and pulp	4.0	2.9
Footwear and leather	4.0	2.9

Source: Ministry of Development, Industry and Trade

Even that is enough to cause a fever. Brazil currently produces 18 billion litres of ethanol a year of which it exports 4 billion litres, just over half of worldwide exports. By 2013 consumption in Brazil is expected to double. Global ethanol trade could rise 25-fold by 2020.

If these calculations are correct, Brazil will need $90 billion of investment in new mills, plus $2 billion for pipelines, railways and storage. It already has 357 mills and is planning another 136 at a cost of $14.5 billion, according to Datagro, an industry consultancy. The investors are mostly Brazilian, but also include Louis Dreyfus and Tereos of France and Cargill of the United States. If anything there is an excess of enthusiasm. “A lot of money is chasing too few opportunities,” worries David Bunce of KPMG.

To become a staple in the world's energy diet ethanol needs to be commoditised, with global standards of purity and a vibrant futures market. But the industry rejects the stigma of commodity status. Workers in the new mills wear white coats, and laboratories are springing up beside them. Biocell is one of several biotech companies looking for a way to convert the currently unused two-thirds of the cane plant into ethanol. Alellyx, which Mr Reinach claims is the only company tweaking sugar-cane DNA, has started field trials of a variety with 80% more sucrose—the raw material for sugar or fuel—than the standard sort. Researchers are also working on drought-resistant varieties that will grow far beyond the São Paulo heartland.

Coming of age

Corporate Brazil is coming of age in other ways too. A new personage, the Brazilian multinational, has

appeared. Companhia Vale do Rio Doce (CVRD), privatised in 1997, last year became the world's second-largest mining company when it acquired Inco, a Canadian nickel producer. Gerdau has become the biggest producer of long steel products in the Americas (and has vaulted trade barriers) by buying operations in nine countries, including the United States. Embraer is the Boeing of the regional-jet market. Last year, boosted by the CVRD acquisition, Brazil for the first time invested more abroad than foreign companies did in Brazil.

Brazilian bosses reckon they have outsmarted a difficult economy by cutting costs, consolidating their business and professionalising their management. If a recent book, “Sucesso Made in Brasil”, by Donald Sull and Martin Escobari, is to be believed, they have evolved special skills for surviving chaos and seizing opportunities. Between 2003 and 2005 sales of publicly quoted companies grew three times faster than the economy as a whole. Many of these companies are a long way from mining or farming. Last year's merger of Submarino and Americanas created one of the world's biggest e-commerce operations. Some businesses can be found nestling close to Brazilian multinationals, in the way that growing companies cosy up to American universities. Cordoaria São Leopoldo started out making shoelaces and now produces cables to anchor Petrobras's deep-water drilling platforms. Graúna makes aircraft parts for Embraer and is beginning to export.

Sometimes outsmarting Brazil means getting away from it altogether. Part of what drove Gerdau abroad was Brazil's low growth and its high cost of capital. Manufacturers now realise that the cheap dollar is here to stay and that the exchange rate is less volatile than it used to be, says José Roberto Mendonça de Barros of MB Associados, a consultancy. So they are outsourcing production, especially to China. Gradiente, which produced almost its entire output in Brazil three years ago, now outsources 40% of it, mainly to China. In 2005 Brazil's largest shoe manufacturer, Azaléia, shut a factory employing 800 people in the southern state of Rio Grande do Sul and started producing in China.

But for most companies there is no escape. Of the 72,000 industrial enterprises with more than ten employees, only 1,200 compete by differentiating their products, according to IPEA. They account for a quarter of turnover in the corporate sector but just 13% of jobs. A middle group of 15,000 firms making standardised products that compete mainly on price accounts for 63% of sales and nearly half of employment. The remaining firms have “serious problems of productivity and invest very little”, says João Alberto De Negri of IPEA.

In addition to economic growth, Brazil's industrial health depends on three things. The first is whether innovation will spread beyond a tiny minority of firms. Spending on research and development amounts to only 1% of GDP, of which well over half is done by universities. The OECD average is more like 2% of GDP, and two-thirds of that is done by industry.

The second is the outcome of the Doha round of multilateral trade talks. Brazil's agriculture would be the biggest gainer from an ambitious settlement, but its manufacturing would be less protected.

The third and most important is what happens to *custo Brasil*. As technology changes, even Brazilian ethanol may start to be weighed down by it.

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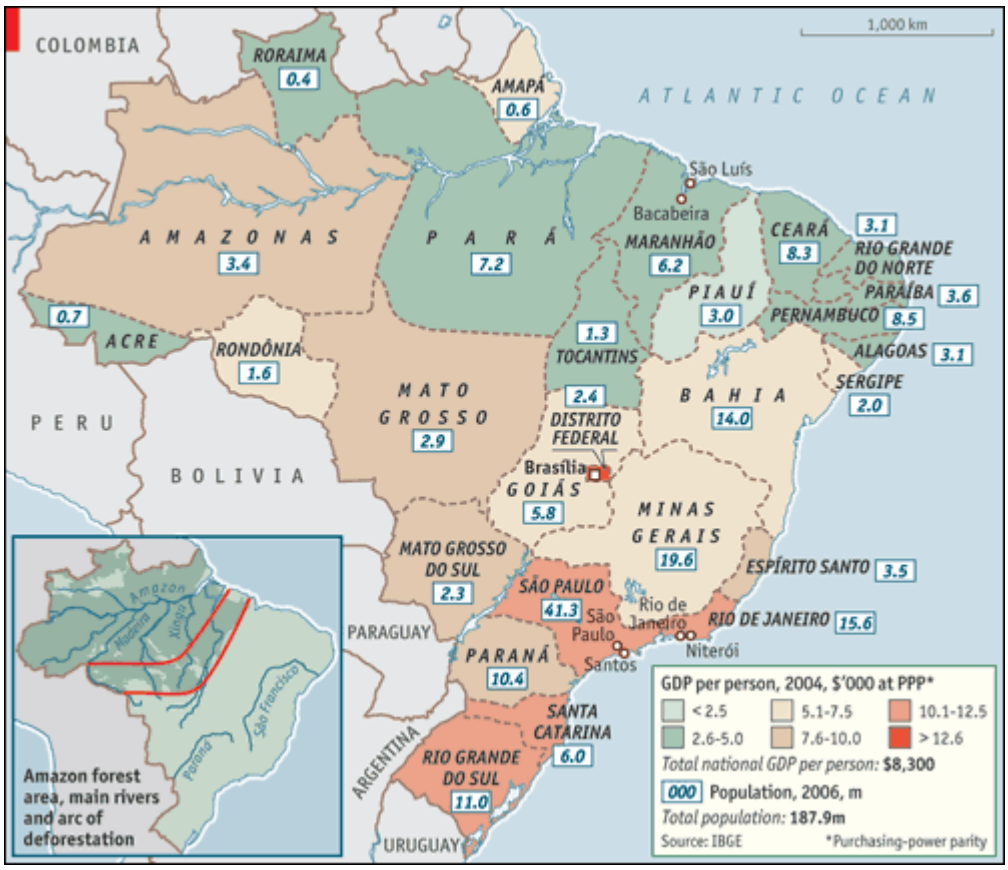
The final frontier

Apr 12th 2007
From The Economist print edition



For Brazilians, land still has a mythical quality

IF BRAZIL disappeared from the face of the earth, the rest of humanity would probably miss the Amazon rainforest most. It is one of the world's biggest reservoirs of carbon dioxide, the principal greenhouse gas, as well as a rain factory for all of South America and, possibly, a vital regulator of the world's weather. If Brazil's contribution to global warming came only from its fleet of vehicles and power plants, it would be a model environmental citizen, thanks to its use of renewable resources. But three-quarters of its carbon emissions come from the destruction of the Amazon, turning the country into one of the top ten polluters. Will Brazil save the world or destroy it?

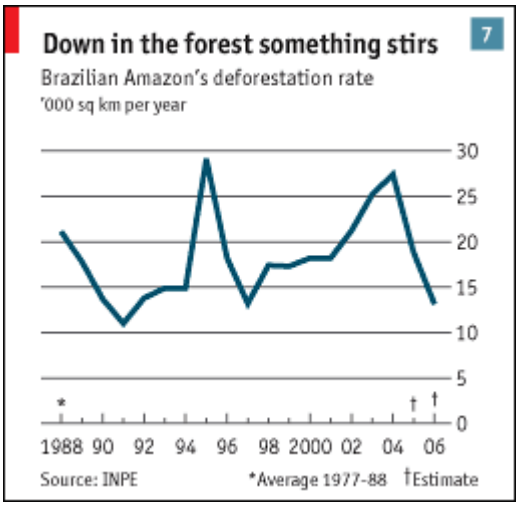
That depends on how Brazil manages its 8.5m sq km (3.3m square miles) of territory. “Brazil is a sea of empty unoccupied land without need for irrigation,” says Plinio Nastari of Datagro. There should be plenty of room for all the beef, sugar cane, soya, eucalyptus trees and other commodities that Brazil wants to produce. But Brazil sometimes feels like a continent-sized planning dispute. Every commodity seems to provoke a purpose-built protest movement. During President Bush's recent visit to Brazil he was treated to slogans against the sugar-cane “monoculture”. Corporate landowners often find themselves embroiled in disputes with indigenous peoples or landless movements. In Brazil “everyone loves the land,” says Carlos Aguiar, chief executive of Aracruz, a pulp and paper manufacturer that has been repeatedly invaded by both groups.

Brazil is still in the process of discovering itself. Agriculture, having conquered much of the savannah of the centre-west, is opening new fronts in the north-east. The old mining centre of Minas Gerais now has a rival in Carajás, in the Amazonian state of Pará. Industry, having converged on the city of São Paulo for much of the 20th century, has been dispersing for decades. Oil has come to the rescue in parts of declining Rio de Janeiro. Brazilians associate space with opportunity, which lures them to their frontiers.

This restlessness has devastated the Amazon. Since the 1960s, when military rulers promoted settlement

to rid themselves of troublesome social groups and lay claim to a vulnerable part of the country, about 18% of the forest has disappeared. Sometimes the cycle of destruction starts with illegal logging, which etches the first trails into the forest. Land grabbers often follow, or stake their claim to virgin forest by razing and burning the trees and turning the land into pasture. Then come the planters, who replace pasture with more profitable soya, driving the ranchers deeper into the forest. The pioneers outrace the state's capacity to enforce the law and to exercise its own property rights.

This may be changing. Deforestation has fallen by more than half over the past two years, to its lowest level since 1991 (see chart 7). Part of the explanation is the appreciation of the *real*, which has put off ranchers from opening new tracts of forest. But it helps that the state is beginning to make its presence felt. The government has created 40m hectares of conservation areas in the past four years, many of them across the arc of deforestation, a band along the southern and eastern fringes of the forest. A new law declares that no public forest can be privatised, which should discourage land-grabbers, and provides for concessions for "sustainable" logging and other tree-friendly uses. Federal police have arrested dozens of officials for trafficking in fraudulent logging licences. Consumer pressure, transmitted from rich countries to the Amazon via green NGOs, is beginning to have an effect. Last July processors announced a two-year moratorium on buying soya from deforested land.



Putting a price on a priceless asset

The government's goal, says the federal secretary of biodiversity, João Paulo Capobianco, is "zero illegal deforestation" (practically the only kind these days). Amazonian governors are more committed to this than ever before, he reckons, and now Brazil wants the rest of the world's help.

This is new. Brazil has always resisted the idea of allowing outsiders any say in the fate of the Amazon. But last year it formally proposed an international fund to pay Brazil for the forest's environmental services to the planet. Under the scheme, Brazil would be compensated for reducing deforestation below a certain baseline according to the market value of the carbon sequestered in the intact forest. This would give it a value to compete with the profits to be gained from its destruction and finance the cost of proper policing. There are other possible methods, for example the use of carbon-credit markets. But Brazil's new willingness to put forest preservation on the market is "an extremely important step", says Paulo Moutinho of IPAM, a research institute.

With the revival of soya and the government's new "growth acceleration package", which proposes to pepper the Amazon with infrastructure, Brazil is about to put its new model to the test. More than two-thirds of Brazil's unexploited hydro-power potential is in the Amazon. The government is warring with environmentalists over proposed dams on the Madeira and Xingu rivers. The package calls for paving several Amazonian roads, traditionally the main vectors of destruction. If the state does not use them to police crime better, they will be a blessing to environmental criminals.

Brazil need not chop down the Amazon or destroy the remaining savannahs to expand its agriculture. Most of Brazil's farmland is pasture, running to some 175m hectares and occupied by around half a cow per hectare. Crops take up just 63m hectares. If ranching were made more intensive, crops could expand into empty pasture. Embrapa, the government's agricultural-research arm, is promoting integration of crops and cattle, which could multiply the density of the cattle population by five. "The big problem is to change the mentality of the rancher," says Embrapa's Eduardo Assad. Brazil may be huge, but it is not as inexhaustible as Brazilians think.

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Rich man, poor man

Apr 12th 2007
From The Economist print edition

Efforts to reduce poverty and inequality are bearing some fruit

Get article background

BACABEIRA—a low-slung settlement where the main street is a federal highway and most of the rest are dirt tracks—is not a rich place. More than half its population lives below the official poverty line of 120 reais a month per person. The main source of jobs is local government. But lately this district with 12,000 inhabitants, about 50km from the port city of São Luís, the capital of Maranhão, has been experiencing a boom of sorts. Four furniture stores and a DVD shop have opened, and women no longer have to go to neighbouring Rosário for beauty treatments. Schoolchildren now carry backpacks.

AFP

Too many Rocinhas

Bacabeira owes much of its newfound prosperity to infusions of federal cash. The real value of pensions, which is linked to the official minimum wage, has doubled over the past 13 years. Well over half the families receive Bolsa Família, a benefit of up to 95 reais a month that requires parents to keep their children in school and take them to clinics for health check-ups. A version of Bolsa Família existed before Lula took office, but he greatly expanded its coverage and increased the value of the benefit. It now reaches 46m people, a quarter of Brazil's population, making it the world's largest “conditional cash transfer” programme (ie, benefits are linked to the recipients' behaviour). “It helps a lot,” says Rosângela Quindere, a mother of five. Outside her house sits the barber's chair where her husband offers alfresco haircuts. As usual, it is empty.

Poverty and inequality are to Brazil what wars of independence are to other countries. Brazil is not unique in its history of slavery and the obliteration of its indigenous peoples. But there is no Brazilian Bolívar to distract attention from these injustices, and no founding ideology of equality to set against them.

Brazil's bloodiest conflicts, with the exception of the ruinous Paraguayan war of 1865-1870, have been internal affairs, pitting classes, regions and races against each other. The country's thinkers have dwelt on the paradox of a nation where power is a rich man's luxury and vitality flows from below. Its politics are a quest to narrow the awkward gap between the Brazil of closed condominiums and the other Brazil of untreated sewage.

Income distribution in Brazil is more skewed than in any other big country. Violence and pollution are spread even more unequally. The road that separates Gávea, a rich neighbourhood of Rio de Janeiro, from Rocinha, a *favela* (slum) dominated by gangs of drug dealers, marks a ninefold difference in unemployment, a 17-fold difference in income and a 13-year variation in life expectancy, says André Urani of IETS, a think-tank. Such indicators are correlated with race, but Brazilians argue over whether racial inequality is a cause or a consequence of economic inequality.

Narrowing these gulfs has become the main business of government since the restoration of democracy. Lula, who revels in his image as “the father of the poor”, annoyingly claims copyright on the idea, but the recent progress builds on initiatives taken by his predecessor, Mr Cardoso, himself a scholar of Brazil's race relations. Between them they have produced a startling reduction in poverty and inequality.

The poor are getting richer

The Real Plan prompted a sharp drop in poverty by slashing the inflation that taxes the poor. The first three years of the Lula government have seen an equally dramatic decline. Even more strikingly, inequality has at last begun to yield. The Gini coefficient, which measures concentration of income, fell by 4.7%, from 0.596 to 0.568 between 2001 and 2005. Between March 2002 and June 2006 the share of national income going to the poorer half of society increased from 9.8% to 11.9%; the share going to the richest tenth fell from 49.5% to 47.1%. The economy may be sluggish, but “the very poor are living Chinese growth rates,” says Marcelo Neri of the Fundação Getulio Vargas.

This looks like the combined effect of earlier reforms and the ramping up of social spending. One of the main levellers has been the labour market. Despite the slow pace of economic growth the number of new formal jobs doubled between the start and the middle of the current decade. Mr Neri reckons that greater economic stability gave employers the confidence to resume hiring. The wage gap between large and small cities fell as the export boom created rural jobs and industry fled from urban complications such as crime and trade unions.

Another reason for less unequal wages is less unequal access to education. Primary education did not become available to everyone until the 1990s. That allowed the poor to compete for jobs previously occupied by the lower middle classes. It is also possible that real incomes increased more than the official statistics suggest. Two economists from the IMF have argued in a recent paper that the consumer-price index exaggerated inflation after the opening of Brazil's economy.

The second principal boost to equality has come from federal income transfers such as Bolsa Família, which have the most impact outside the metropolises of the south-east. According to IPEA these income transfers account for a third of the reduction in inequality.

Flies in the ointment

Lula's poverty-alleviation programme has been an undoubted success, but many Brazilians also see downsides to it. One is political. With Bolsa Família and other federal programmes, Lula has found a way to reach deep into the interior districts of the poor north-east, where local “colonels” traditionally call the shots and the PT had never made much impression. Lula won an unprecedented 77% of the vote in the north-east in the last election. “Income transfers mean you won't have competitive elections,” frets Bolívar Lamounier, a political scientist. A graver problem is fiscal. Pensions and Bolsa Família contributed equally to the decline in inequality, but the higher pensions cost four to five times more.

There is also concern that income transfers will mark the end of development rather than its beginning. In theory, Bolsa Família breaks the cycle of poverty by ensuring that children are healthier and better educated than their parents. In practice, poor schooling means that the next generation's earning power will not improve as much as it should (see article). Government cash may also breed dependency. “Here 95 reais is a lot of money. Many families get used to it,” says Sérgio Moraes, who runs Bolsa Família in Bacabeira. But systematic studies do not confirm that suspicion. Instead, having a guaranteed income gives parents the security to look for better work opportunities, says Kathy Lindert of the World Bank, which helps finance Bolsa Família.

The programme could be upgraded, for example by extending the benefit from the period of primary schooling to cover high school too. With virtually all of Brazil's poor families in its database, Bolsa Família could be used to give them priority access to 150 social programmes, such as training and sanitation, says Ricardo Paes de Barros of IPEA. He thinks it is “surprisingly isolated from other programmes.”

If the poor are racing ahead when average income is plodding along, somebody must be losing out. That somebody is what is loosely described as the middle class, which includes many people close to the top of the pyramid. The reforms of the 1990s reduced the government's share of salaried employment and forced businesses to shed high-paying jobs. In 2002-04, 86% of new formal jobs paid at most double the minimum salary; the number of jobs paying at least ten times the minimum salary fell by 11%. In metropolitan areas informality rose sharply between 1992 and 2005 even as it fell nationally. The minimum wage increase is pushing up salaries at the bottom, and highly qualified people at the top are still making a good living. But “the middle is purgatory,” says José Pastore, a sociologist at the University of São Paulo. Employment has been expanding only just enough to absorb the 2m people who enter the labour force annually. Unemployment is stuck at about 10%.

In this respect, Bacabeira may be lucky. Gerdau, a steel company, recently bought a pig-iron plant in the district, which is a prime candidate to receive the spillover when industry runs out of space in São Luís. But the locals complain that such companies bring in most of their employees from outside. “I can't afford a training course for my son,” says one woman. Brazil is still a long way from creating all the jobs it needs—and providing people with the qualifications to fill them.

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Low marks

Apr 12th 2007
From The Economist print edition

Education is still letting the country down

FROM the inside the Unidade de Educação Básica Cidade Olímpica feels more like a dungeon than a school. Slits wide enough to admit trays of food pierce the walls between the classrooms and a cavernous hallway. The pre-class clamour of children does not stop with the bell because some teachers have not turned up yet. Paula Souza, the school's director, says that 40% of the teachers are absent at least one day a week. Some resent being assigned to this primary school on the poor periphery of São Luís. Its performance shows it: in a national exam administered in 2005 Cidade Olímpica's scores in Portuguese and maths were below average for city, state and country.

Alamy

Don't repeat after me

The real problem is those averages for the country as a whole. Brazil came dead last in maths and fourth from the bottom in reading in tests administered in 40 countries by the OECD. Half of ten-year-olds are functionally illiterate and there is little sign of improvement. Working-age Brazilians have an average of 4.1 years of schooling, compared with six in China. This is the biggest obstacle to Brazil's ambitions. If educational standards were as good as those in the United States, the difference in income per head would fall by 30-40%, calculates Samuel Pessôa, an economist at the Fundação Getulio Vargas. To diminish that gap, all three levels of government, which share responsibility for education, must raise their game.

To be fair, Herculean progress has already been made. Little more than a decade ago some 17% of children aged 7-14 did not go to school. That changed in the 1990s when the federal government started distributing money to states and municipalities on the basis of enrolment in primary school. The extra pupils then thronged the high schools, which tripled their output of graduates during the 1990s, according to Claudio de Moura Castro of Pitágoras, a chain of private schools. Quality deteriorated in part because quantity expanded so fast.

Upgrading is harder than expanding. Brazil spends 4.3% of GDP on public education, less than it should, given the relative youth of its population. Much of that money is wasted. Brazil is among the world champions in grade repetition, with 30% more children in primary school than the total in the 7-14 age group. Undertrained, overstretched teachers know no other way of controlling their classrooms. The practice costs 13 billion reais a year, nearly a fifth of basic-education spending. “It's a vicious circle. You can't invest in quality because of repetition,” says Alberto Rodríguez of the World Bank.

Starting salaries for teachers are low, which deters good candidates, but then increase steeply, encouraging incumbents to stay until they retire, five years earlier than other workers. In that brief career, encouragement and incentives are both in short supply. Training is long on theory and short on practical experience. Many teachers work at two or even three schools, one of them private. In Maranhão

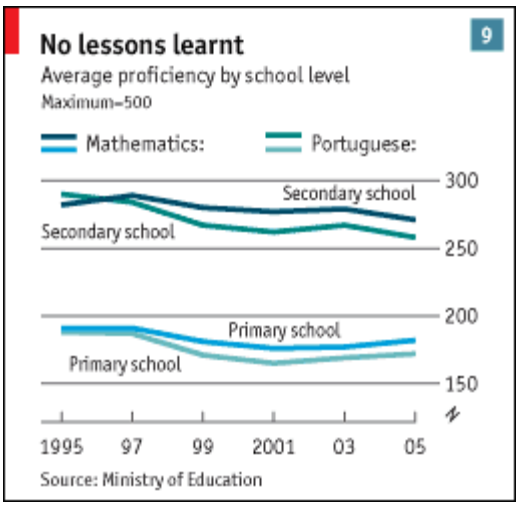
experienced teachers refuse to teach in remote districts, which are served by students who take classes during the week and pursue their studies at the weekend. The São Luís school system is plagued by absences for medical reasons, which can last up to 15 days without a doctor's certificate. Mayors reward political supporters with school directorships and sometimes teaching jobs. “Many states have tried to limit political intervention but these efforts have been short-lived,” says Mr Rodríguez. And students spend an average of only three hours a day in class.

Worry about Brazil's lagging education system is becoming more widespread. A gaggle of enterprises and NGOs banded together last year to form “Everyone for Education”, a movement to push for better results. Global competition is obliging enterprises to adopt international quality standards such as ISO 9000, which in turn demand a workforce educated to high-school level. Fernando Haddad, the education minister, says Brazil aims to match the OECD's average performance by 2022, the bicentenary of independence.

Paying attention

Having ignored basic education for much of his first term, Lula now acknowledges that Brazil's educational plight is “the worst of all worlds”. Fundef, the federal fund that financed the expansion of primary education in poorer states, has been turned into Fundeb, which covers pre-school and high school as well. Children who go to pre-school are more likely to finish high school and, the government hopes, less likely to have to repeat grades. A new “education development package” is to set performance targets for each state and municipality and to reward those that achieve them, with around 8 billion reais earmarked as education aid over the next four years. This “new culture” of offering carrots for results will require restructuring in the states, the cities and the ministry itself, says Mr Haddad.

State and local initiatives also seem to be making a difference. Seven of the ten highest-scoring school districts in the state of São Paulo had a private education company, COC, to manage their classrooms. In COC-run schools teachers attend monthly training sessions, are constantly evaluated and learn how to deal with problem children. São Luís has hugely increased its share of teachers with a college degree, from less than 20% to more than 90%, and now does much better in national tests.



As so often in Brazil, the question is whether the bright ideas and promising experiments can work their way into its institutions. Teachers want better education as well, but they are more interested in spending, training and working conditions than in the nitty-gritty of managing schools and classrooms. Juçara Vieira, president of the National Confederation of Education Workers, thinks that schools should be evaluated but individual teachers should not, because that “would lead to competition”.

Nor is there much pressure from struggling, often single parents, who are inclined to treat school as a form of day care. Ms Souza of Cídade Olímpica confirms that “they [just] want us to take care of their kids.” Real change may not come until parents start demanding more from their schools. The same might be said of voters and politicians.

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The slow road to paradise

Apr 12th 2007
From The Economist print edition

Why Brazil is taking so much time to reach its potential

ON A balmy Saturday night in February the hilltop *favela* of Cavalão ("Big Horse", because that was what was needed to reach it) warms up for Carnival. In the asphalted clearing that serves as the main square men cluster in plastic chairs to drink beer. The entertainment is provided by musicians drawn partly from Cavalão's police station.

Yet only three years ago Cavalão was an "inferno", says Valmir Mariano, who works in a luxury hotel in Niterói, the city near Rio de Janeiro of which the community forms part. Police and drug traffickers exchanged gunfire "almost every day". On a Saturday evening such as this everyone else would have been cowering indoors. That changed when police installed themselves inside the *favela*, earned the trust of residents and began playing the occasional samba. Cavalão, formerly one of the most violent neighbourhoods in Rio state, has seen no murders since 2003.

AFP

Lula has no mandate to slim the state

The question Brazilians should be asking is why their country does not always work as well as this. Why does it smother enterprise, abandon schoolchildren to ignorance and squander money? Why is Cavalão's community policing unit one of only five in the state of Rio? Brazil is teeming with promising experiments and hopeful initiatives. Why does it not put them into mass production?

One answer may be that a mass market has made itself felt only recently. The Brazilian state was not born answerable to the bulk of its citizens. Until 1985 those who could not read and write were not allowed to vote. The constitution was an act of penance that cast the state in the role of saviour. It would dispense benevolence, but would require the developing world's most elaborate apparatus of regulations, taxes and benefits to do so. It is not surprising that this contraption serves itself more reliably than it does ordinary Brazilians.

But democracy and economic progress are beginning to change that. The constitution has been amended 58 times to permit reforms and to remove aberrations. Lula, who once shined shoes in São Paulo and lost a finger in a factory accident, is the first Brazilian president to be drawn from the mass of ordinary voters who elected him. Those who expected cleaner government along with the common touch were disappointed, but that has only made the clamour for accountability louder.

Part of the problem lies with the workings of the world's second-largest proportional-representation system. Parties are weak, alliances struck before election day are broken and reconfigured the day after and voters have little connection to their Congressmen. Ideas, let alone ideology, barely enter the discussion. Between the vote-buying *mensalão* and the subsequent "bloodsucker" scandal (which involved selling overpriced ambulances to municipalities), 91 deputies and senators in the Congress whose term ended in December were accused of corruption. Congress saw fit to expel just four. It also set a record for party-hopping: 195 of the 513 deputies switched parties, some several times, to make a total of 345 moves. One of Congress's final acts of sheer *chutzpah* was to vote itself a 91% pay rise, which the Supreme Court promptly overturned.

Perhaps Congressmen behave this way because their links to voters are tenuous. Candidates for "proportional" offices—the lower house of Congress and the state assemblies—compete in statewide races. Seats are distributed to each party (or electoral coalition) in proportion to the number of votes received by all its candidates. Within that quota, the winning candidates are the individuals with the most votes.

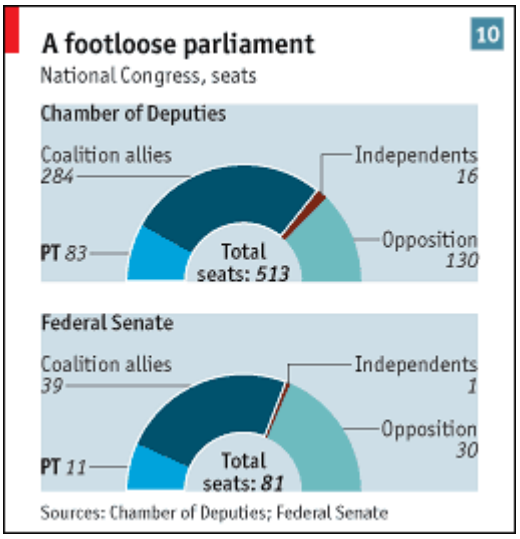
This looks fair: both parties and personalities are ranked according to their popularity. But the results can be perverse. Since every vote contributes to a party's quota, it makes sense to field as many candidates

as possible, even though voters barely know them. For example, 541 candidates ran in Minas Gerais, the state with the country's second-largest electorate, and the top vote-getter won a share of only 3%. Candidates from the same party compete against each other as well as against the opposition. If one gets more votes than he needs to be elected, his surplus votes go to lesser lights from the same party or coalition. These nonentities often beat more popular candidates from less favoured groupings. Most of the 21 parties elected to Congress under this system are little more than nameplates. Few of them practice democracy internally. And by party-hopping, deputies sever their last tie with the voter.

The connection that survives is the one with the network that secured their election, which consists of mayors, special-interest groups and enterprises (which often finance campaigns off the books). Between elections these machines continue to function, producing patronage, contracts and donations that benefit all concerned. In the bloodsucker scheme, Congressmen, mayors and the ambulance vendor all shared in the bounty. “Congress is composed of representatives not of the people but of vested interests,” says Mr Cardoso, the former president.

These affronts have caused a backlash. The abortive pay rise was denounced from church pulpits and in e-mails that jammed deputies' in-boxes. In the new Congress reformist deputies challenged two establishment candidates for the presidency of the lower house. They failed but were widely applauded. Indignation has gelled into a consensus, shared by the government and most political parties, that Brazil's electoral system needs reform.

At least a score of reform proposals are circulating in Congress, and more are emerging all the time. Among the most talked-about are outlawing private election finance; penalising deputies who switch parties; requiring parties to poll a minimum number of votes to reduce their number; and making voters pick a party rather than an individual. The most radical proposal under discussion is to create congressional districts, which would help voters to keep an eye on their representatives. This could be combined with proportional representation, as is done in Germany.



Many of these ideas have drawbacks. Getting voters to pick parties rather than individuals, for example, might simply strengthen the bosses, unless the parties themselves become more democratic. And no thought is being given to correcting the worst imbalance, created by the rule that each state gets a minimum of eight seats and a maximum of 70 in the lower house. This ensures that more than half the seats go to the north, north-east and centre-west, which between them have only 41% of the electorate.

A nation of statists

No political reform will resolve Brazilians' disagreement over what constitutes good governance. Everyone wants honest politicians, but few Brazilians complain about the size of government, despite the large electronic *impostômetro* in the centre of São Paulo that tots up the government's tax take in real time.

Having failed to win re-election in the first round of voting last October, Lula regained the initiative by accusing his opponent, Geraldo Alckmin, of plotting to privatise the jewels of state-owned industry. He polled the most votes in regions where government transfers were highest. “Brazil is divided between those who depend on the government and those who pay the bills,” says Guilherme Afif Domingos, an anti-tax campaigner who is now São Paulo's labour secretary.

Lula emerged from the contest with popular backing and an overwhelming congressional majority but no mandate for state-slimming reforms. His 14-party base extends from the conservative Progress Party to the Socialist Party of Brazil and incorporates almost all of the centrist Party of the Brazilian Democracy Movement, a confederation of political fiefs that until now has resisted unity. Although about 70% of all deputies are in the coalition, Lula can probably count on only just over 60%, reckons Christopher Garman of Eurasia Group, a consultancy. That is enough to change the constitution, but apart from simplifying taxes the government seems content to let public opinion dictate the pace of reform. Mr Mantega, the finance minister, says it “wants to do a long-term fiscal programme where spending is under control”.

But it is relying on economic growth and a proposed cap on public salaries to reduce state spending as a share of GDP.

A stronger reforming impulse may come from regional government. Aécio Neves, governor of Minas Gerais, eliminated his state's budget deficit and shook up the bureaucracy. He was re-elected with 77% of the vote. Rio de Janeiro's new governor, Sérgio Cabral, has installed a cabinet of technocrats. His new chief of military police helped pioneer the sort of policing that pacified Cavalão. In São Paulo José Serra has promised to cut the time required to open a business from 152 days to 15. In 2010, when Lula's second and final term runs out, Brazil may elect as president the first state governor since Fernando Collor. Mr Serra and Mr Neves, both of the opposition Party of Brazilian Social Democracy (PSDB), will be among the strongest contenders. They will put efficiency on the national agenda.

The problem is that few Brazilian politicians can conceive of benevolence without power, when it is often by surrendering power—either to the markets or to institutions within the state—that they can do the most good. Police in Rio require the same *esprit de corps* as regulatory agencies in Brasília, but no party has dedicated itself to providing it. Lula's PT and the PSDB, the likeliest source of an alternative presidential candidate, are political rivals but philosophical kin. The two “liberal” parties excised that word from their names this year, in effect disavowing the creed that challenges the size of the state. Even the reformist Mr Neves has trouble tolerating an unfettered press in his home state.

It is this political lacuna that makes optimists about Brazil so impatient. Democracy and economic change are pulling it forward, but at a halting pace. If only Brazil could sort out the way it governs itself, it could be racing for glory.

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No end of violence

Apr 12th 2007
From The Economist print edition

Law enforcement remains a weak spot

IN MAY 2006 a gang of jailbirds declared war on South America's biggest city. For the better part of a week shock troops of the Primeiro Comando da Capital (PCC), a prison-based criminal organisation, wrought havoc on São Paulo, killing policemen, firebombing buses and banks and bringing the city to a virtual standstill. The police struck back with even greater ferocity. By the time the violence subsided 150 people had died. In December Rio de Janeiro's locked-up criminals orchestrated similar attacks in that city. They were less lethal but introduced a horrific novelty: one of the burnt-out buses was full of passengers.

Brazilians are obsessed with crime. Prosperous *paulistanos* (residents of São Paulo) live behind high walls, drive armoured cars and send their children to school in the company of bodyguards. Last month violence displaced unemployment as Brazilians' top worry for the first time in years, according to a poll. Yet the trend in violent crime in Brazil is downwards, particularly in big cities such as São Paulo, where the murder rate has dropped by more than half since 2000.

Eyevine

A marketing campaign with a difference

No one is sure why. Among the reasons put forward are the peaking of crack addiction, lower immigration and a tougher policy on guns. All of these may have played a part. What is known is that more than half of all the murders in São Paulo are provoked by personal disputes; murder for profit has not fallen, says Guaracy Mingardi of the São Paulo public prosecutor's office.

But violence is moving out of the main cities, along with jobs and industry. “Crime follows the path of wealth, not poverty,” says Sérgio Adorno, head of the Nucleus for the Study of Violence at the University of São Paulo. In a recent league table in which cities were ranked by their murder rates, none of the state capitals made it into the top ten.

The murder rate for Brazil as a whole is still an intolerable 23.8 per 100,000 people and, as the handling of last year's prison-based terrorism showed, its law-enforcement institutions are still inadequate. The terrorism in Rio de Janeiro may have been a message to the “Blue Command”, police organised into protection gangs that force their services on terrified neighbourhoods. In December, 82 of the state's civil and military police officers were arrested on suspicion of drug trafficking and illegal gambling.

The PCC's surprising ability to cause mayhem from inside the prison system stems from São Paulo's policy of locking up as many criminals as possible without creating the infrastructure to manage them properly. But what was the point of the attacks? Ms Muniz, the anthropologist, sees them as “marketing tools”. The PCC is a collection of loose alliances with a weak chain of command that needs “symbolic acts” to enforce contracts and hold on to allies. There is a chance that it may strike again.

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Sources and acknowledgements

Apr 12th 2007
From The Economist print edition

Acknowledgments

This special report has drawn on many sources of insight and information. In addition to those mentioned in the text, the author would like to thank: the Fernand Braudel Institute of World Economics; Alexandre Marinis of Mosaico Economia Política; Hélio Zylberstajn of the University of São Paulo; the economics department of the Pontifical Catholic University of Rio de Janeiro; Yoshiaki Nakano and Fernando Abrucio of the Fundação Getulio Vargas; Lauro Ramos and Armando Castellar of IPEA; Luiz Barroso of PSR; Josué Christiano Gomes da Silva of Coteminas; and the Grupo de Apoio às Comunidades Carentes in São Luís.

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Softbank

Receiving, not giving

Apr 12th 2007 | TOKYO
From The Economist print edition

Reuters

Softbank's latest reinvention, as a mobile firm, proceeds apace. But the company's ability to churn through cash has not changed

AT THE height of the dotcom mania seven years ago, Softbank's stockmarket value hit almost $200 billion, making it very nearly the highest-priced company in Asia—not bad for a former software distributor floated only six years earlier. At the time the company had grown to oversee a vast and chaotic spread of internet investments in America and Japan. Its founder and head, Masayoshi Son (pictured above), who owned 38% of the company, looked as though he might overtake Bill Gates as the world's richest man. For young Japanese entrepreneurs, “Son-san” was more than just an adversary to Japan's buttoned-up corporate world; he was the messiah for a new age.

Times change. Mr Son's early investment in Yahoo! was a masterstroke. However, though Softbank still has a controlling stake in the valuable Yahoo! Japan, the country's biggest internet portal, most of its other investments have proved duds. Softbank's shares change hands at just under ¥3,000 ($25) compared with ¥198,000 at their peak. Foreign hedge funds think that this still values Softbank too richly, given its huge debt and complex corporate structure; they have borrowed Softbank shares to sell, in the hope of picking them up more cheaply after a plunge. The contrast with Japan's retail investors could not be starker. Mr Son is their hero. Thanks to them, Softbank is still the stockmarket's most heavily traded company. Some analysts who have issued critical reports on the firm have had to resort to bodyguards to protect themselves against angry shareholders.

Since the bubble burst, Softbank has reinvented itself at least twice, first as a fixed-line telecoms and broadband firm, and now that scheme has lost its shine, as a mobile-phone operator. A year ago it bought Vodafone's struggling mobile network in Japan. Rebranded Softbank, it is the smallest of Japan's big three mobile operators, with 16m out of 100m-odd mobile customers. At long last, Softbank has a business with scale and a sizeable customer base.

The business that Softbank acquired, for ¥1.8 trillion, was in awful shape, as a result of Vodafone's misreading of Japan's mobile market, one of the world's most sophisticated and a pioneer of third-generation (3G) services. In particular, Vodafone attempted to exploit economies of scale by offering the clunky 3G handsets it was selling in Europe to Japanese consumers too. To make matters worse, Vodafone underinvested in its Japanese 3G network, so coverage was poor.

Soon after the takeover, Softbank dramatically wrote down the value of Vodafone's fixed assets—raising the question of why it had paid so much for them in the first place. Undaunted, the new management began spending anew in the hope of setting things to rights. To improve coverage, it promised to increase the number of base stations from 25,000 to 46,000 by March this year. Since last autumn it has rolled out 30 new handsets.

Last October, new rules allowed people to keep their mobile-phone number when they change operators. In response, Softbank offered a series of cut-price tariff packages, including the offer of free calls to other Softbank subscribers. And it gave its customers the chance to pay for their handsets in instalments—an especially alluring innovation, since mobile firms in Japan do not offer customers subsidised handsets, unlike their counterparts in Europe. Executives at NTT DoCoMo, Japan's dominant mobile company, admit that the industry was caught off-balance by such promotions.

A churn for the worse

Whether they have benefited Softbank is another matter. Such tactics work best in markets with high rates of churn, where customers jump readily from one operator to the next. But fewer than 5% of users have switched so far—a fraction of the churn-rate of Europe. That is partly because e-mail via mobile phone is hugely popular in Japan, and e-mail addresses linked to phones are not portable. And it is partly because each Japanese network has its own standard, so customers must buy new handsets when they switch.

Softbank has managed to reverse Vodafone's steady loss of subscribers—but at a cost. Revenue per subscriber is falling faster than subscriptions are growing, a problem that afflicts all operators save the second biggest, KDDI. That should spell lower revenues overall.

It is remarkable, therefore, that Softbank is reporting improved profitability at its mobile business. For instance, where profit margins under Vodafone were just 3.2%, they more than tripled to 11.7% during the new management's first two months last summer. They have since slipped a bit, but the leap has rekindled awe at Softbank's aggressive accounting.

The latest innovation seems to involve the handsets Softbank is selling on instalment. Analysts reckon it is booking all the revenues from the sale of each handset up front, even though the cash is to be received in instalments over up to two years. Softbank, in effect, has created a leasing business. Over the long term, that should have no impact on the company's cash flow, but in the accounts it could boost operating profit in the short term. The publication in a few weeks of Softbank's annual accounts for the year to April may cast more light on the matter.

In the previous financial year Softbank put an end to years of operating losses and has since seen operating profit grow each quarter. Indeed, over the past seven quarters, Softbank has reported a cumulative operating profit of ¥260 billion. But it is cash that services debt, and Softbank has a lot of debt—a net ¥2.4 trillion at the latest count, over eight times more than equity. Much of its cash is being swallowed by investments in Softbank's broadband, fixed-line and mobile businesses—including all those extra base stations that Softbank promised last year, but had not yet completed by its March deadline. As a result, free cash flow (net income adjusted for things like depreciation and capital expenditure) is estimated to have fallen ¥80 billion into the red over the same period.

Softbank is still bleeding cash, in other words, which it must back up either with fresh injections of equity or debt or by selling something. Since Softbank's flotation in 1994, its ability to destroy value has been prodigious. In all, it has received more than ¥3.2 trillion from investors and has spent about ¥2.8 trillion of that in operating losses, investment losses and capital expenditure. Although Mr Son's machine is remarkable for sucking cash in at one end, it is also remarkable for spitting very little of it out at the other.

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German corporate governance

Digging in

Apr 12th 2007 | FRANKFURT
From The Economist print edition

Embattled bosses outstay their welcome

TWO distinguished gentlemen, one of 66, the other nearly 70, are defending their positions as chairmen of big, scandal-ridden German firms on the grounds that they did not know what was going on. At Siemens, which is embroiled in no fewer than three separate criminal investigations, Heinrich von Pierer claims he is “deeply distressed” that his efforts at fighting corruption as chief executive until 2003 “were not successful enough”. At Volkswagen (VW), where a board member was sentenced in January for bribing workers' representatives on the supervisory board, Ferdinand Piëch escaped censure after the culprit insisted that his superiors had known nothing.

In many countries such clear signs of napping at the helm would surely lead to corporate chiefs resigning. But in Germany the heads of companies tend to ignore any public outcry over scandals or poor performance and stick it out to the bitter end. So it was with Hilmar Kopper, chairman of DaimlerChrysler, who presided over years of missteps before finally stepping down on April 4th, at the end of his term.

Some of Mr von Pierer's fellow board members are now trying to persuade him to resign, according to the weekly *Der Spiegel*. IG Metall, Germany's biggest blue-collar union, with three officials on Siemens's supervisory board, has filed criminal charges against the company for alleged bribery of a rival union, AUB. Johannes Feldmayer, a Siemens board member, was arrested by prosecutors in March on suspicion of bribing the same union; he was released before Easter. But the main investigation at Siemens concerns the funnelling of €420m ($564m) through secret accounts in Switzerland and Liechtenstein over seven years to win foreign telecoms contracts.

Although bribery has been a problem at VW too, investors are most concerned about conflicts of interest. Mr Piëch's family controls both Porsche, which owns almost a third of VW, and Porsche Holding, a car dealer that sells VWs in some parts of Europe. Hermes, a British fund manager, complains that Mr Piëch is both an arbiter of and participant in VW's dealings with Porsche Holding, and that his interests may diverge from those of other shareholders.

At Siemens, Mr von Pierer has acknowledged that he should not be the one to investigate possible misdeeds during his tenure as chief executive, and so has recused himself from the supervisory board's audit committee, which is leading the firm's anti-corruption charge. But that only underlines the awkwardness of having a former chief executive as chairman. Even if Mr von Pierer goes, Siemens's problems with corporate governance are unlikely to disappear. A possible successor is Gerhard Cromme, chairman of ThyssenKrupp. Mr Cromme has headed Siemens's audit committee since 2003, and arguably did not dig deeply enough into allegations of corruption. Mr Cromme is also head of a government commission on corporate governance. But he does not exactly practise what his commission preaches: he switched jobs smartly from co-chief executive to chairman at ThyssenKrupp in 2001, and he has far too many supervisory board positions to do each job well—seven in Germany and three in France.

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European retailers

Pinault-Puma-Redoute

Apr 12th 2007
From The Economist print edition

France's PPR group buys into Puma

Reuters

FRANÇOIS-HENRI PINAULT is defying predictions. As the son of François Pinault, one of France's richest and most controversial businessmen, he was generally assumed to be a *fils à papa*, the son of a powerful father whose main qualification was his surname. But since 2005, when he took over as boss of PPR, the conglomerate in which his family owns a 32% stake, he has proved more hands-on than expected: he replaced most of the senior staff and sold a chunk of Fnac, a media group, as well as Orcanta, a lingerie brand, and Printemps, a chain of department stores that had been the second 'P' in PPR.

On April 10th Pinault *fils* announced the biggest deal of his career so far. PPR has bought 27% of Puma, a German sportswear firm, and is offering to purchase the rest. The offer, which values Puma at €5.3 billion ($7.1 billion), will be financed entirely by debt. Jochen Zeitz, boss of Puma, endorsed the bid to shareholders at Puma's general meeting on April 11th in Nuremberg. At the same meeting, PPR won three seats on Puma's board.

PPR's pounce for Puma came as a surprise. Last year Mr Pinault had eyed Bulgari, an Italian luxury-goods company (see article) and other jewellers and fashion designers in Italy and France to beef up the luxury arm of his retail-cum-luxury empire. At the time he said he would like the group to focus more on lucrative luxury goods.

Yet after an unprecedented boom in the industry, makers of luxury goods are much in demand. Bulgari would have been very expensive. Chanel, Hermès and Armani are not for sale. So Mr Pinault set his sights eastwards. He has known Mr Zeitz since 2004, when he tried to lure him away from Puma to become chief executive of Gucci group, which owns most of PPR's luxury brands. Mr Zeitz is one of corporate Germany's shooting stars. After becoming the youngest boss of a publicly listed German company when he took over Puma in 1993, he transformed the firm from a near-bankrupt plimsoll-maker into a trendy high-street brand.

Mr Pinault and Mr Zeitz, who are both the same age, get along well. Mr Pinault wants Mr Zeitz and his team to keep their jobs. The headquarters of the company will remain in Herzogenaurach, a tiny town in southern Germany. Alexander McQueen, one of the Gucci group's acclaimed designers, has been making shoes for Puma since 2005. Other designers in the Gucci stable may also lend a hand to Puma. Price was the main sticking point during the talks, and PPR seems to have secured a good deal. Analysts say it will need to increase its offer to buy the entire company. Nike, an American sportswear firm, could launch a rival bid, though PPR's stake is a strong deterrent.

"It is a good deal for PPR financially and in terms of strategy," says Marc Festa, an analyst at Exane, a French broker. It adds a third strand to the group's business, somewhere between its profitable but volatile luxury interests and its steadier but less lucrative retail division. Puma stands to benefit too: PPR will bring know-how in retail, brand management and e-commerce. Only 16% of Puma's kit was sold in its own shops last year. Mr Pinault wants to help Puma raise this figure by building more "concept" stores.

Mr Pinault will probably sell more of his retail businesses to pay off the debt PPR is about to raise to buy Puma. More of Fnac or Conforama, a household-furnishing retailer, could be put up for sale. YSL Beauté, the poorly performing perfume and cosmetics subsidiary of Yves Saint Laurent, one of Gucci's fashion brands, is likely to be on the block soon. At present, the group's debt stands at €2.9 billion, which would increase to more than €8 billion after a takeover of Puma. Standard & Poor's, a rating agency, said it was reviewing PPR's creditworthiness after the announcement of the Puma deal. PPR will be keen to avoid a

downgrade. So in the course of the year Mr Pinault is likely to shake up the group his father founded quite a bit more—and perhaps replace the missing ‘P’.

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Employee share ownership

An ESOP to the workers

Apr 12th 2007 | NEW YORK
From The Economist print edition

Giving workers a stake in troubled firms may not be the answer

IF ALL else fails, hand the workers some equity. That seems to be the new philosophy of America's private-equity firms, at least, judging by the bidding war for Chrysler and the recent deal to buy the Tribune newspaper group. Each time, a large, and possibly controlling, slice of the firm's equity is likely to end up in an employee share-ownership plan (ESOP).

Anyone seeking in this the spirit of Robert Owen, the father of the workers' co-operative, or of Louis Kelso, an American lawyer who invented the ESOP in 1956, is likely to be disappointed. Neither deal foresees a big role for workers in corporate decision-making, as advocated in Kelso's book, “The Capitalist Manifesto”, written with Mortimer Adler. Today's plan is to use ESOPs to achieve narrow financial goals, not to forge an enlightened bond with workers.

Financial engineering is central to the deal announced earlier this month to sell Tribune to Sam Zell, a real-estate tycoon. Although the purchase price was advertised as $8.2 billion, Mr Zell will have to cough up only $315m (assuming that other potential buyers, such as billionaires Ron Burkle and Eli Broad, do not return with a higher offer). Ultimately, the rest of the money will be borrowed by a newly formed ESOP, which will eventually own most of Tribune's equity.

One of the main attractions of this arrangement is that the ESOP structure will bestow huge tax breaks on Tribune. The benefits to employees are less clear. Mr Zell has not said anything about giving workers a bigger say in running things. And Tribune will stop making matching contributions to employees' individual retirement schemes; instead, pension provision for employees will now consist entirely of shares held by the ESOP.

Some form of ESOP is reportedly also part of each of the various bids for Chrysler, the struggling American arm of DaimlerChrysler. When Daimler bought Chrysler in 1998, it paid $35 billion. Analysts now value it at no more than $8 billion, though Daimler may be fortunate to get anything close to that for a business that some experts think is destined, sooner or later, for bankruptcy, along with Detroit's other giant car manufacturers, Ford and General Motors.

On April 5th Tracinda, the investment vehicle of Kirk Kerkorian, a buy-out veteran, offered to pay a paltry $4.5 billion for Chrysler. Mr Kerkorian's offer assumes that Daimler will retain some of Chrysler's crippling health-care and pension liabilities and that the firm's employees will take a big chunk of equity in exchange for giving up some promised benefits.

Overall, ESOPs seem to improve the performance of firms that have them, which may explain why they are increasingly popular. Some 10m American workers are members of ESOPs, which together control assets worth an estimated $600 billion. However, it is less clear that they help firms in upheaval or confronting possible failure–such as Tribune and Chrysler.

ESOPs “aren't magic”, argues Corey Rosen, who runs the National Centre for Employee Ownership. In his view, they “only improve performance when they are part of creating a culture of employee involvement, with plenty of opportunities for workers to participate in the big decisions facing the firm.”

One success was Floturn, a troubled machine-tool maker that was bought through an ESOP from its parent, Belcan, in 1988. The management got the employees to help overhaul the firm's business, which led to huge improvements in productivity and profits. That rare triumph must be contrasted with the more typical experience of United Airlines. In 1994 an ESOP bought 55% of its equity, not least because the unions saw that as the only way to stop the then chief executive from making big (and, with hindsight, essential) job cuts. After an initial success, the unions and management quickly reverted to confrontation. In 2002 United entered bankruptcy, and the ESOP became worthless. Tribune and Chrysler would do well to avoid a similar fate.

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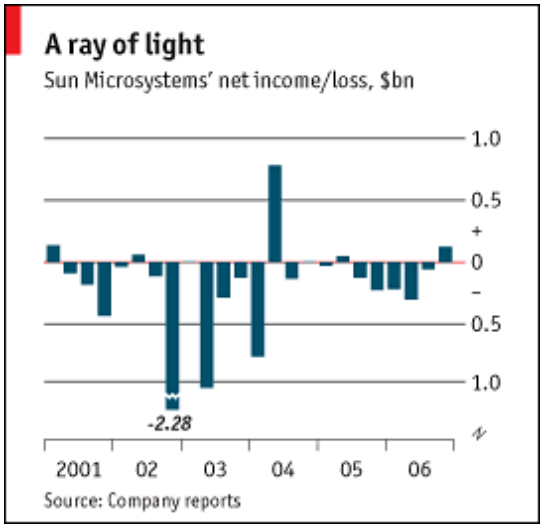
Sun Microsystems

Expanding its universe

Apr 12th 2007 | SAN FRANCISCO
From The Economist print edition

After a year under its new boss, the computer-maker is bouncing back

MICHAEL LEHMAN, the finance chief of Sun Microsystems, a high-end computer-maker that rose and fell with the dotcom boom of the 1990s, recalls a typical customer visit from about a year ago. A delegation from America's navy, a big client, sat down in Sun's Silicon Valley offices. The admiral's first questions were “How is your business?” and “How is your stock?” The uncomfortable burden of his interrogation was: “Will Sun survive?”



Things are different now. After five years of losses, in which both revenue and market share fell, Sun is growing again (see chart). It is winning customers from its rivals and, after a profitable quarter, is hoping to post its first full-year profit since the boom. Sun's bosses have even set themselves an ambitious performance target: operating profit, now less than 3% of revenues, is to be 10% of revenues by 2009.

All this is great for Jonathan Schwartz, who took over as chief executive from Scott McNealy, one of Sun's co-founders, a year ago this month. People at Sun are wary of giving too much credit to the new boss—Mr McNealy stayed on as chairman—and avoid using words like “turnaround”. But Benjamin Reitzes of UBS, an investment bank, says that Sun's situation reminds him of Xerox's swift revival five years ago, also under a new boss. Laura Conigliaro of Goldman Sachs, another investment bank, expects those 10% margins to be “a milestone rather than an endpoint”. Overnight, as it were, the setting Sun has begun to rise again.

Surprisingly, Sun's resurgence appears to be based not only on the boring stuff of lay-offs and cost-cutting, but also on a vigorous plan to grow in an industry that is supposedly stagnant. The market for humdrum corporate servers supporting run-of-the-mill business applications is shrinking, in effect, since the price of the things is falling faster than the growth in volume being shipped. But, says Greg Papadopoulos, Sun's technology chief, there is a parallel “universe” that is expanding quickly. It contains unusually demanding customers such as FedEx, which needs big computers to route trucks and aircraft efficiently; drug firms that need to model complex molecules; weather and climate forecasters; and fast-growing “Web 2.0” start-ups that handle huge amounts of data, such as video and blogging sites.

Mr Papadopoulos, borrowing from astronomy, calls this expanding constellation of clients a “red-shift” market. As the universe expands, light from galaxies moving away from Earth appears shifted toward the longer (and hence redder) wavelengths of the spectrum. Light from stars and galaxies moving towards Earth, by contrast, would be blue-shifted. Sun's strategy is to keep fighting rivals such as Hewlett-Packard (HP), IBM and Dell for the traditional “blue-shifted” customers while also targeting the more interesting “red-shifted” customers.

How does Mr Schwartz propose to do this? In part, by being much more pragmatic about alliances and technological combinations than was Mr McNealy, who harboured emotional enmities with rivals. In the past, Sun sold only proprietary boxes that included its own chips and Solaris, its own operating-system software. In recent years, under Mr McNealy's aegis but with input from Mr Schwartz, Sun opened up, selling computers based on processing chips from AMD, and making Solaris open-source—ie, available without charge. As boss, Mr Schwartz has opened up even more. In January he gave news of a partnership with Intel, the world's biggest chipmaker and a former rival.

Mr Schwartz hopes for three things from such openness. First, to entice more firms to become first-time Sun customers by letting them run Solaris free on IBM, HP or Dell hardware, or on cheap Sun boxes based

on Intel or AMD chips. Second, to boost the popularity of Solaris as a “platform” for other software. And third, to encourage red-shift customers to buy Sun's most powerful machines without fear of proprietary “lock in”.

This strategy has risks. Vernon Turner at IDC, a market-research firm, warns that customers may decide to use Solaris, but only on non-Sun hardware. Worse, red-shifting companies might decide to emulate Google, an internet company that cobbles its systems together from large numbers of low-cost machines, rather than buying expensive kit from a single vendor. For the moment, however, Sun is rising.

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Health care

McClinics

Apr 12th 2007 | NEW YORK
From The Economist print edition

“Convenient care” clinics are taking off

AP

And close to the pharmacy

“IN NO other industry is the relationship between the consumer and the provider as unbalanced as in health care,” says Joseph Maloney of Health Stop, a pioneering retail health-care chain. In a recent case study on his firm prepared by Regina Herzlinger of Harvard Business School, Dr Maloney observed that the typical patient frequently waits a week for an appointment, then an hour longer at the doctor's office or, worse yet, is forced to go to an emergency treatment centre. As Dr Maloney summarised, “Any dry-cleaner that operated this way would be put out of business.”

That, at least, is the argument being peddled by a plethora of new businesses offering “convenient care”. Services that were once available only during business hours at doctors' offices can now be obtained on weekends at clinics in shopping malls and inside pharmacies. Europe already has a few walk-in clinics at transport hubs and the first in an American airport opened last month in Newark, New Jersey.

It is but a hint of the boom to come. RediClinic, a Houston-based firm (funded in part by Steve Case, the co-founder of AOL), already has a few dozen clinics at Wal-Mart and other retailers, and is rapidly expanding. Web Gorlinkin, the firm's chief executive, expects its 50 or so clinics today to increase to 500 by 2009, with many of those inside Wal-Mart branches.

CVS, America's second-biggest pharmacy chain, recently bought the MinuteClinic chain and now plans to double the number of clinics in its stores to perhaps 300 this year. In the long term, the firm expects the number of clinics to surpass 2,500 as it introduces the concept in almost all its shops.

Convenience is one reason this niche is taking off. “You're sick, we're quick” is the motto of MinuteClinic, which promises to take care of minor medical problems in about 15 minutes. Patients arriving at RediClinic branches are given a pager, so that they can shop nearby until the clinic can see them. If patients are given prescriptions for drugs, they usually need to walk only a few feet to pharmacy counters at the likes of Wal-Mart and CVS to pick up their medicine.

But retail clinics also attract patients thanks to their prices. They typically charge $50 or $60 for a visit, half or less of what it would cost to consult a doctor and a quarter of the cost of a visit to an emergency centre. In recent months American insurance companies and even Medicare (the government health-insurance scheme for the elderly) have decided to extend their coverage to retail clinics.

Some of these clinics, like those run by Health Stop, are staffed by doctors. A similar, state-run centre operates at the Poole branch of Boots, a British drugstore chain. The British government declared in March that it wants more retailers to include such clinics. However, the most innovative and fastest-growing chains (including MinuteClinic and RediClinic) use not doctors but “nurse-practitioners”. Relatively inexpensive, such nurses can diagnose the most common minor ailments (such as flu) and, crucially, also write prescriptions. Graver conditions are referred to a doctor.

Does that mean retail health-clinics could become as popular and ubiquitous as McDonald's? Put that notion to MinuteClinic's Mr Howe, who as it happens used to be the chief executive of Arby's (another American fast-food chain), and he rejects the analogy. “This is not the same as selling French fries,” he insists, observing that quality control is paramount since people's lives are involved.

That is true. Many patients want the personal care of a practitioner whom they know and trust: instant

medicine is not for them. But McDonald's showed how consistent standards across a huge network of branches can win loyalty. Dr Maloney also disliked the comparison with fast food, but admitted that it may have some merit. As he put it in the Harvard study: “Consistency is important in healthcare too.”

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Online gambling

Antigua claims the pot

Apr 12th 2007
From The Economist print edition

A defeat for America's bid to shut down betting websites

IT MAY be a small country, but it has played its cards well. On March 30th Antigua and Barbuda (population 69,000) won a second round at the World Trade Organisation (WTO) in its struggle to get America (population 301,593,000) to open up its market to foreign firms offering online gambling.

The WTO ruling came at an awkward time for America, which is vigorously clamping down on internet gambling. Two days beforehand, American officials had arrested Stephen Kaplan, the founder of BetonSports, a British gambling website, adding to the almost half-dozen executives of similar firms it has already detained.

America argues that online gambling puts “public morality” at greater risk than allowing people to take a punt at the track or casino. Two years ago the WTO agreed with it, saying a ban on remote betting could be sustained under international trade rules—but only if it was applied consistently to both international and domestic firms.

But American laws discriminate against foreign operators. The Federal Wire Act, for instance, bans foreign firms from taking bets from Americans on sporting events (including horse races) and is being used to jail the bosses of offshore betting sites. Yet in its complaint to the WTO, Antigua pointed out that some 18 American states allow their citizens to place internet and telephone bets on horse races and other sporting events with American firms. The Cato Institute, a libertarian think-tank, reckons that America's attempts at prohibition are more about keeping foreign operators out of a lucrative market than about protecting public morals.

In its latest decision, the WTO ruled that American gambling laws are discriminatory and so are not protected by the “public morality” exemption. The verdict leaves America with two choices. It can either let people bet on horse races on foreign websites, or it can outlaw all domestic internet and telephone betting. Either move is likely to be resisted by the powerful horseracing lobby. Nor is it clear that Congress can overturn states' betting laws, since its authority only extends to interstate commerce.

America's most likely response is to do nothing. After all, two tiny islets less than three times the size of Washington, DC have little chance of forcing it to yield. Antigua is hoping that right will trump might and that America will submit to the ruling to protect the integrity of the WTO, a body it appealed to this week in a piracy dispute with China. If moral suasion fails, Antigua says it might engage in a bit of music or software piracy, a form of retaliation permitted by WTO rules. The odds of America folding, although low, have improved.

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Face value

Viking boss, Viking strategy

Apr 12th 2007
From The Economist print edition

Actavis

Robert Wessman of Actavis has turned around a struggling generic-drugs firm

WHEN staff moved into the new Reykjavik headquarters of Actavis last year, the headaches were literal. Unable to tell whether the glass doors were open or closed, executives of the Icelandic generic-drugs firm kept walking into them. Inscriptions were etched into the door-panes both to keep the injury count down and to pep the occupants up. The aphorism on Robert Wessman's door—"The future does not wait"—was telling. Speed is everything to Actavis's young boss, who races go-karts for fun, and rides a Harley-Davidson to work in the summer. He took charge of Delta, the forerunner of Actavis, in 1999, at the age of 29, after studying business at university and cutting his teeth at an Icelandic transport company. He saw Delta as a firm that had lots of potential, despite its financial difficulties. His new employees saw him as a greenhorn with no background in the industry. At his first meeting with the staff, Mr Wessman had to fend off questions about his age and marital status before anyone asked him about what he planned for the business.

His answer, which has not changed since, was blessed with the certainty of youth. The number of branded blockbuster drugs going off-patent is finite. Competition, much of it from firms in India, is intensifying. Drugs buyers are becoming more hard-nosed. Low-cost manufacturing and economies of scale are critical. Geographical expansion and the development of a broad product portfolio are required to diversify risk and capture growth opportunities. The generics industry is consolidating and will end up being controlled by a handful of global suppliers. Armed with these insights, Mr Wessman decided that Actavis (which got its new name in 2004) needed to grow, and fast.

His talk of becoming an industry giant seemed quixotic at the time—he recalls board members paling when he set out his vision. In 1999 Delta was present only in its home market; it had 146 employees and sales of €57m ($61m at the time). Mr Wessman thinks his "wild Viking" heritage prompted him to think big. Icelanders have a tradition of thinking laterally, he says, of not giving up and of not caring what others might say. Seven years later the company is present in 32 countries, has 11,000 employees and had revenues of almost €1.4 billion in 2006. It has grown "faster than anyone else in the history of the industry," says Mr Wessman proudly.

Actavis's expansion has mainly been driven by acquisitions ("Icelanders catch their own fish", notes Mr Wessman, who also hunts geese and deer to relax). That Actavis's chairman and largest shareholder is Thor Bjorgolfsson, Iceland's first billionaire, helps give the company access to capital. The firm has averaged a deal every third month since 1999 and its appetite is growing. Its largest acquisition so far came in 2005, with the purchase of the generics business of Alpharma, an American company, for $810m. That amount could be dwarfed if Actavis wins the race for Merck's generics unit—bids must be

submitted by the end of this month and are expected to top €4 billion. Success would make Actavis the world's third-biggest generics firm.

Speed of decision-making and execution is at the heart of Mr Wessman's approach. “People usually plan things to death,” he says. When Alpharma's generics unit was put up for sale, Actavis was not in the frame. Mr Wessman wrote to Alpharma's board to say that he was interested, politely reminding them of their duty to maximise shareholder returns. In response, Actavis was granted seven days to make an offer, enough for a team of 50 people to trawl Alpharma's books and for a refinancing facility to be set up. “They only gave us seven days in order to get rid of us,” chuckles Mr Wessman, who gets personally involved in due diligence at target firms.

Integration is also speedy. The acquired company's drugs are quickly filed in Actavis's other territories, maximising sales potential in other markets, and Actavis's products are added to the portfolio of the new addition. With 650 products on the market and another 355 in the pipeline, Mr Wessman's goal is to make Actavis a global one-stop shop for generics. Product portfolios are not the only things being integrated. Sindan, a Romanian firm bought in 2006, leads the charge for Actavis in the area of oncology. India is becoming increasingly important as both a low-cost production centre and a research hub.

Less haste, more speed

Growth brings dangers. Larger firms have a natural tendency to accrete hierarchies and bureaucracy. Mr Wessman says he tries to run the business in the same hands-on way he did in 1999. Every Monday afternoon he sits down with his deputy and his financial chief to run through the numbers from the various parts of the business. If something needs fixing, it is noted and addressed that week. Overpayment for assets is another risk, especially as the number of available acquisitions shrinks. (Actavis itself could yet become a target.) The company lost to Barr Pharmaceuticals last year in a lengthy battle to buy Pliva, a Croatian drugmaker. Mr Wessman claims he has walked away from deals in the past and will do so again if the price is too high.

Actavis must also cope with shifts that are even now changing the generics industry. Biotechnology drugs account for an increasing chunk of the patents now being taken out by branded drugmakers. The clinical bar for producing copies of these drugs (known as “biogenerics” or “biosimilars”) is higher than for the chemical compounds of traditional pharmaceuticals. That means higher development costs, tougher regulatory processes and less price erosion. Mr Wessman says Actavis's large sales force and its ability to perform clinical trials in India provide a platform for expansion in this area. True to form for a man who has been behind the wheel ofa Formula One car (“an unbelievable feeling”), he is sure he can make up ground. “Let others burn their money now, and I'll come in later,” he boasts.

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Correction: IBM

Apr 12th 2007
From The Economist print edition

IBM's software division generated 40% of the firm's profits in 2006, up from 35% two years earlier, from 20% of its revenues, not 40% as we stated ("Hungry tiger, dancing elephant", April 7th 2007). And in its recent risk-sharing contract with Cisco, HCL did not take on any Cisco employees. These errors have been corrected online.

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Italian luxury goods

Tutto in famiglia

Apr 12th 2007 | MILAN AND ROME
From The Economist print edition

To thrive in the globalising economy Italian luxury-goods firms must put economic logic before family and independence

AP

“IT IS very tricky to sack a cousin,” observes Francesco Trapani, the chief executive of Bulgari. The Roman jeweller was founded by Sotirio Boulgaris, a Greek immigrant to Italy, in 1884. The patriarch's grandsons, Paolo and Nicola, are respectively chairman and vice-chairman. Mr Trapani, who took over as chief executive in 1984 at the age of 27, is their nephew.

Yet Bulgari, the third-biggest luxury jeweller after Cartier and Tiffany, is different from most of the other family-owned luxury-goods firms in Italy. Mr Trapani listed Bulgari's shares in 1995, even though he knew he would be exposed to outside pressure as the boss of a public company. “If I don't perform, I am out,” he says.

Now other Italian luxury-goods firms are considering following Bulgari to the stockmarket. The industry is booming. Emerging markets in Asia are becoming increasingly important and demand more investment in products, stores and marketing. Famous brands are branching into new lines of business, including hotels and interior decoration.

The Italian companies also have an eye on their main competitors: French firms dominate the luxury-goods industry, with 36% of the global market. Some, such as Hermès, have listed their shares on the Paris bourse. Others have been swallowed by Moët Hennessy Louis Vuitton (LVMH), a publicly listed luxury-goods group created by Bernard Arnault, or by PPR, a quoted retail and luxury-goods empire established by François Pinault, a French financier who is Mr Arnault's arch-rival. By comparison, most Italian companies remain private and parochial.

Lux in flux

Family bonds remain an asset, Mr Trapani says, unless they override business logic. (Members of the Bulgari clan collectively own 52% of the shares, so they still control the company.) Of the independent Italian firms, only Bulgari and Armani, which is privately owned, have properly embraced globalisation, he reckons. Gucci, another Italian firm to have spread its wings, is part of PPR.

In spite of their reluctance to become truly international, other Italian luxury-goods makers have until now

thrived in this tricky, fickle trade chiefly thanks to a long tradition of craftsmanship in the country's northern regions. In addition, the business has high barriers to entry. It takes time to build a good name; luxury is capital intensive; and about 70% of new brands fail.

But globalisation is placing fresh demands on even the best-established brands, and that could cause old strategies to fail. Asians are now the biggest consumers of luxury goods. The first task is to conquer these new markets, which will provide openings for new brands—including, eventually, luxury brands from Asia itself. Flotations could provide the cash for this expansion. Going public also encourages a firm to be disciplined with its finances and increase its profile.

So much for the financial logic. But what would listings do for the creative minds behind the Italian brands? The transition would not be easy for Italian family-run stars like Ferragamo, Versace or Prada. Founders of French luxury firms, such as Hubert de Givenchy and Yves Saint Laurent, gave up their independence only reluctantly when they sold the business to LVMH and Gucci respectively.

Italian companies have come to this crossroads after a rough patch at the beginning of the decade. Luxury-goods companies depend on tourists, particularly Asians visiting Europe. The fall-out from the dotcom boom, terrorist attacks in America on September 11th 2001, SARS and the start of the war in Iraq dented consumer confidence and dampened demand for international travel.

The industry has now recovered and companies are making big plans for the future. Last year was a vintage one: international travel picked up and luxury-goods sales grew, on average, by 10-20%. Asian demand was particularly strong; sales in China were up by 50%.

Industry surveys estimate that global annual sales of luxury goods are €100 billion ($130 billion) to €150 billion. The Japanese in their home market are responsible for some one-third of demand, Europeans and Americans about one-quarter each. About two-fifths of sales are in Europe, but many of those are to tourists.

Investment in Asia will be the test of whether a brand can compete in the world market. Now that the Japanese market is saturated, China is the industry's promised land. As a rule of thumb, a country starts developing an appetite for luxury goods when the average output per person reaches $5,000 to $7,000 a year, the prosperity in Japan at the end of the 1970s, when Louis Vuitton entered the Asian market. In China's wealthiest cities GDP per person was around $7,000 in 2006.

With increasing wealth in China, attitudes to luxury have dramatically changed. A decade ago “showing off” in public was frowned upon: now young Chinese love to flaunt their designer labels. They go for Versace, Dolce & Gabbana (D&G) and Roberto Cavalli and their big, flashy logos that shout, “I am rich”. Robin Wight, chairman of Engine, a consultancy to luxury companies, compares their display to the “peacock's tail”. The Chinese market's double-digit growth is predicted to continue for at least the next few years. By 2014 about one-quarter of the industry's revenue will come from Chinese consumers, some predict.

To do well in China calls for big investments in advertising and promotion. The Italian industry's artisans used to be extremely successful, says Bulgari's Mr Trapani, but in today's global economy size matters. Bigger companies can invest more in advertising and marketing, which is all-important in an industry built on image and aspiration. They can pay for an extensive retail network, the latest technology for the back office and employ the most talented designers and managers.

Marketing costs can be very high, as are expenses for setting up shop and training sales staff. The growing presence of international brands in China is already bringing greater competition. Getting a retail licence can be tricky. Rents for property on the country's busiest streets are as extravagant as a piece of Louis Vuitton luggage. And most of the makers of luxury brands have yet to expand to cities other than Beijing, Shanghai and Guangzhou.

In 1991 Ermenegildo Zegna was the first Italian luxury company to enter the Chinese market. Today the firm has about 52 shops across the country. Almost all its peers have followed. China is the most interesting market, says Giancarlo Di Risio, Versace's boss, because it has some 120m consumers who can afford his “super-luxury” wares. Versace has five shops in China, which the company claims are doing well, and is planning to open another ten in 2007. Bulgari's four Chinese outlets are not making money yet. And Gucci has eight (profitable) shops in China.

Another call on the luxury firms' money is new businesses. Giorgio Armani is the pioneer of luxury-brand extension. He developed sub-brands, such as Emporio Armani and Armani Junior, to cater to different

groups with different spending power. Now, in a joint venture with Emaar, a Dubai property developer, he is building a chain of hotels. The trick is to diversify without cheapening the brand.

After he took over at Versace in 2004, Mr Di Risio followed the Armani example, although he has continued to cater only to the super-rich. He is planning to build 15 super-luxury resorts around the world with Sunland Group, an Australian property developer.

It is all strikingly ambitious. But unlike their French rivals, few Italian luxury-goods makers have the scale or resources to place big bets on emerging markets and new lines of business without making themselves dangerously indebted.

That risk has always been there, but in China the risk is particularly large. Some observers remain sceptical of the Chinese boom and warn that most new Chinese consumers have low levels of brand awareness—and therefore low brand loyalty. Moreover, the Chinese prefer to buy luxury goods abroad, because of the prevalence of counterfeits at home. And prices in mainland China can be up to 30% higher than elsewhere because of high import duties and high consumption taxes.

Others warn that growth worldwide may be slower than the glitzy numbers forecast. Indeed, the industry could already be seeing slower growth. Sales could increase by 8-10% this year, reckons Antoine Belge, an analyst at HSBC, an investment bank, compared with a range of 7-18% last year. For the next ten years he predicts an average annual growth in sales of only 7%.

Brands on the block

If Italian luxury-goods firms are both to invest enough cash to succeed in Asia, and to have the ballast to absorb the odd setback, then they may have to list on the stockmarket. About 80 of them possess the brand awareness, growth, profitability and size to do so, says Pambianco, a Milan-based consultancy. These include D&G, Diesel and Armani, as well as Ermenegildo Zegna and Prada. Diesel and D&G are among the most profitable luxury companies in the world with annual sales of €1 billion and €800m respectively, about one-fifteenth of LVMH's annual turnover.

A few of the best-known companies are planning a listing within the next two years. Prada, one of Italy's biggest, has tried to go public several times over the past six years. Next time a listing may come off. Intesa Sanpaolo, Italy's biggest bank, recently paid €100m for a 5% stake, valuing the firm at €2 billion. The company says it may list its shares next year.

Ferragamo, a Florentine maker of leather goods, hired Michele Norsa a few months ago, the first chief executive not to be a member of the 42-strong family, which nonetheless remains involved in the business. (Family can sometimes be counterproductive. In 1993 Ferragamo was bigger than Gucci and twice the size of Bulgari. Today the company is half the size of Bulgari and one-quarter that of Gucci.) “We intend to go public in the next 24 months,” says Mr Norsa.

Given that Versace is toying with the idea of a listing in 2008, Armani is the odd man out: Mr Armani, the founder of arguably the most successful of all Italian luxury-goods makers, prefers to be independent. L'Oréal, a French cosmetics company, and LVMH both ardently pursued him, but he believes his company, with some €400m in its coffers, can finance its own expansion. Financial markets do not really understand fashion, he says. If a new line of clothes is condemned by the critics, part of the fickleness of fashion, the company's share price will dive.

Should Italians follow the French example and merge into multi-brand groups? Their defenders say multi-brand groups mitigate the risk of big investments and save money through economies of scale in advertising, IT, distribution, raw materials and so on. Managers of individual brands are able to share know-how and best practice. They can, for instance, compare their experiences in entering the Chinese market and dealing with local taxation and legislation. Lastly, a house of brands reduces a company's exposure to the fickleness of the industry.

Yet the record of the two big luxury conglomerates is mixed. In the go-go 1990s Tom Ford and Domenico De Sole, at the time Gucci's creative and business heads, bought six fashion houses—Yves Saint Laurent, Balenciaga, Alexander McQueen, Stella McCartney, Bottega Veneta and Sergio Rossi—as well as Boucheron, a jeweller, and Bedat, a watchmaker. When PPR bought the group in 2001, almost all of them were leaking cash. Six years on, Yves Saint Laurent is still losing millions.

Some of Italy's luxury-goods firms may well follow their French rivals onto the stockmarket to boost their resources for the brand battles ahead, but how much the families are prepared to cede control remains to be seen. That, in the end, may be what limits Italy's expansion.

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Retirement and banks

From cheque books to checking pulses

Apr 12th 2007 | NEW YORK
From The Economist print edition

Satoshi Kambayashi

As the number of pensioners increases, banks are extending a helping hand—and, of course, a loan or two

WHEN Floyd Feikema, a lively 90-year-old living in Minnesota, lost his wife eight years go, he knew he needed help. Mr Feikema is blind and his wife had handled the family finances. He was loth to burden his two daughters. So Mr Feikema, already a private-banking customer of Wells Fargo, signed up for its Elder Services group, which caters to the bank's ageing—and most prosperous—clientele. Wells Fargo now handles Mr Feikema's investments, pays his bills, processes his insurance claims, arranges his health care, and has saved Mr Feikema a lot of money by uncovering billing errors for heart surgery two years ago. “It frees me to live my life and let my kids live theirs too,” he says.

A bit incongruously, Mr Feikema's wrinkled visage is the face of the future. In January 2006 the first of America's 77m baby-boomers turned 60. Experts reckon one spouse in every 65-year-old couple will live to Mr Feikema's age. Such greying is evident across the rich world.

But with government treasuries under strain and companies increasingly abandoning “defined-benefit” pension plans, ageing boomers today are shouldering more of the risks of a long old age. “We call it the yo-yo environment,” says Robert Reid, who heads Wachovia's retirement group, “You're On Your Own”. In America, where savings are low and health-care costs anything but, the prospect of being old and sick looks complicated—and quite possibly bleak.

For banks, insecurity represents a huge opportunity. McKinsey, a consultancy, reckons that those five to ten years away from retirement hold almost a third of personal financial assets in America. HSBC, Europe's biggest bank, estimates that, worldwide, people over 55 years of age hold around $63 trillion, or about 70% of the planet's wealth.

But the role of trusted adviser is not a natural one for big banks, which have tended to lose touch with customers as they have grown. Those who target ageing baby-boomers often do so through their private banks, where relationships are already established. Mr Feikema's bank, Wells Fargo, is one example. Originally intended to serve the “frail elderly”, the Elder Services group's typical customer is now an adult over 60 with $1m to invest. For a fee that starts at 2% of assets under management, clients receive not only financial services, but help on everything from choosing a nursing home to picking up pills, finding a driver when their eyesight fails and making funeral arrangements.

Citigroup, the world's biggest bank, takes a different approach. It has built 17 regional “planning centres” for its wealthy customers—mainly baby-boomers on the edge of retirement with a minimum of $5m in assets to invest. The centres bring together experts once scattered around the bank—including tax and

trust lawyers, specialists on insurance and philanthropy, and investment bankers who can put small, family-owned businesses up for sale. The returns have been impressive, the bank says. Revenue per client jumps by as much as 137% in the year after a customer starts to use a planning centre.

A bigger opportunity, if a trickier one, is selling services to the millions of retired people who cannot afford the pampering a private client receives. Some of these are targeted electronically, with software that churns out personalised financial plans. Wachovia, for example, has developed a programme to help customers with at least $250,000 in savings. Poorer clients receive free retirement advice at their local branch. Moreover, banks are re-assessing the way they sell complex retirement products. HSBC has hired older salespeople, often the bank's own retired staff, to make a good impression with their peers.

The most popular products aim to help those about to retire to preserve their savings, provide regular chunks of cash in the future, or both. Sales of annuities, for instance, reached a record $236 billion last year, more than double the level of a decade ago, according to LIMRA, a research firm. Principal-protected notes, which offer a basket of securities that secure capital and put an upper-limit on returns, are also increasingly popular.

The greatest potential, however, is tied up in the housing market. McKinsey estimates that more than 80% of Americans who are retired or near retirement are homeowners, sitting on over $3 trillion in untapped home equity. In America and elsewhere, banks are helping the elderly gain access to this through reverse mortgages, which let people borrow against the value of their homes—either in one big, upfront loan or through a line of credit. Retired people at first pay nothing; accumulated interest and all fees are paid off when the home is sold, with any excess equity going to the homeowner's heirs.

In America almost all reverse mortgages are guaranteed by the federal government, so that if a homeowner's debts are greater than the value of his home at the time of death, his estate will not have to make up the shortfall. Government-insured reverse mortgages soared to a record 76,000 last year, up 77% over 2005, though they are still a fraction of the overall mortgage market. Ginnie Mae, a federal housing-finance agency, announced in October that it would begin pooling reverse mortgages into securities for sale to investors. That should spur the market further.

However, financial advisers often hesitate before recommending reverse mortgages. In Britain customers fell foul of mis-selling scandals in the 1990s. Fees can be astronomical—in America, they can top 10% of the loan amount—and the reputational costs from problems can be high. America's National Association of Securities Dealers has filed 358 enforcement actions over annuity sales in the past six years.

That means banks entering this new market have to ensure that ageing clients understand the products they are buying, especially when the instruments are complicated, fee-laden and confusingly priced. The opportunities for catering to white-haired grandmothers are huge, but the damaging headlines can be large, too.

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Buttonwood

Sting in the tail

Apr 12th 2007
From The Economist print edition

Is low volatility making the world too complacent about risk?

ONE can only marvel at the financial sector's ingenuity in finding new assets to trade. Unfortunately, though, its innovations often only create more things to worry about.

Twenty years ago, volatility—the rate of change of asset prices—was not a separate type of investment. Investors would have happily agreed that sharp falls in prices were a bad thing, and left it at that. Now commentators worry about why the volatility of most financial markets has been so low. Even the recent turbulence, including a stockmarket plunge on February 27th, proved short-lived.

The International Monetary Fund's latest semi-annual *Global Financial Stability Report* is sanguine about concerns such as the American housing market. But it frets about a potential "volatility shock" in the financial system that could "precipitate sharp portfolio adjustments and a disorderly unwinding of positions,"—or, in other words, a panic.

The fund suggests the low volatility of recent years may be owing to greater economic stability, improved central-bank credibility or the better dispersion of risks around the financial system. But part of the explanation could also be cyclical, notably abundant liquidity, low borrowings by companies and high risk appetites.

These factors can feed on themselves. When volatility is low, investors are tempted to take more risks. They will borrow money in low-yielding currencies to invest at higher yields elsewhere (the carry trade). They will write options, earning premiums for selling insurance against extreme market movements. The danger, as the IMF points out, is that investors can be badly caught out when trends change.

Volatility can be measured in two ways. Realised volatility looks at the actual movements of prices in financial markets. But the more commonly used ratio, the Chicago Board Options Exchange's Vix, looks at "implied" volatility. This is backed out of option prices. The price an investor is willing to pay for an option depends on a number of factors including interest rates and the relationship between the market price and the exercise price. What remains when all these factors have been eliminated is the mystery ingredient—implied volatility.

The ever-inventive financial sector has found ways to trade the difference between realised and implied volatility. Investors can take part in a "variance swap", whereby one counterparty agrees to receive implied volatility and the other receives realised.

So if you want to take a bet on market turbulence, you would generally opt for the "realised" part of this swap. But unless that turbulence appears quickly, such a bet will lose money. This is because implied volatility is generally higher than realised. In other words, most of the time, it pays to bet on volatility staying low.

Indeed, volatility has a "curve", rather like the bond market, which generally slopes upwards over time. The Vix represents the short-dated end of that curve. Only rarely, as on February 27th, does the curve "invert" so that short-term implied volatility is higher than long-term.

So it need not necessarily be that investors are complacent in allowing implied volatility to drift so low. The expense of betting on higher volatility may simply be putting them off.

The IMF is unconvinced. It detects a worrying sign of complacency—"tail risk" in the options market. Ever since the crash of October 1987, when Wall Street fell nearly 23% in a day, investors have been sensitive to the risk of an extreme fall. They have been willing to pay a higher price (as measured by implied volatility) for extreme out-of-the-money options than for contracts that insure against smaller market

declines. But this premium has been declining sharply in recent years. In other words, investors are becoming less worried about extreme events.

Since 2003, being blasé has been the most profitable strategy. Risky assets have performed well; for example, the spreads on emerging-market debt recently hit an all-time low. Market shocks have been subdued. Even February 27th's 400-point fall in the Dow Jones Industrial Average came low down the historical league table of percentage daily falls.

But what might cause risk appetite to change and volatility to soar? The simple answer is Harold Macmillan's phrase, “Events, dear boy, events”, perhaps some geopolitical incident or unexpected corporate failure. Emerging-market debt would be a big casualty of such a shift. The IMF reckons that, if volatility moved to two standard deviations above its post-1990 average, emerging-market debt spreads would more than double. Something to worry about indeed.

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The world economy

Test of stamina

Apr 12th 2007
From The Economist print edition

What, asks the IMF, might a flagging America mean for the rest of the world?

ALTHOUGH the pacemaker is tiring, the other runners are keeping up a good speed. This week the IMF marked down its forecast of American GDP growth, but detected no loss of puff in the rest of the world. In its semi-annual *World Economic Outlook*, ahead of this weekend's meetings of the fund and the World Bank, the IMF forecasts that world output will grow by 4.9% both this year and next, just as it did last autumn. But it has cut its forecast of American growth in 2007 by 0.7 percentage points, to 2.2%, and in 2008 by 0.4 points, to 2.8%. It has raised its estimates for the euro area and for developing countries in Asia and elsewhere.

This is consistent with the idea that Asia and Europe have become “decoupled” from America, despite the growth of international trade and financial integration. Some (including this newspaper) have seen signs that Asian and European domestic demand will be strong enough to withstand an American slowdown. Others are not so sure: recently the Asian Development Bank said it could find “no evidence” that fast-growing East Asian economies were detaching themselves from America, Europe and Japan.

One chapter in the *Outlook*, from which economists on both sides have claimed support, weighs up the evidence. The fund notes that America's recent slowdown has so far had little effect beyond Canada and Mexico—but also that it has been largely confined to housing and manufacturing. The risk that it will spill over to consumption and thence, via imports, to other countries, has not passed. Macroeconomic policymakers may have to be prepared to offset any damage.

The fund looks back at the effects of five American recessions and two milder “mid-cycle slowdowns” in the past 30-odd years. On average, growth in other regions fell during the recessions by about half as much as in America. The fall varied across both recessions and regions (see chart). Synchronised declines have tended not to be the result of spillovers from America, but to have global causes. In 2001, for example, many regions were caught by the bursting of the tech bubble, tumbling stockmarkets and declining investment. In 1974-75, the first oil-price shock was a common factor.

America's 1991 recession, in contrast, was a more local affair, after the savings-and-loan crisis. Regional differences also matter. In 1982, for example, Asia and Latin America were hurt more than industrial countries. Latin America suffered especially as rich-world interest rates rose, bringing on the region's debt crisis.

The mid-cycle slowdowns, in 1986 and 1995, were much tamer. American GDP growth fell by only a percentage point on average; the median decline in other industrial countries was only a tenth of that; and growth in other regions rose. So far, notes the IMF, today's American slowdown fits this pattern.

Mild, with local causes: in other words, so far the American slowing is of just the type to leave Asia and Europe undisturbed. Stephen Roach of Morgan Stanley argues that it is premature to say that decoupling has been truly tested. He's right: it hasn't. Over to the American consumer.

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World trade talks

A pot-holed road

Apr 12th 2007 | WASHINGTON, DC
From The Economist print edition

The Doha round looks for salvation in Delhi

CHHINDWARA is a hilly, rural district in the middle of India, where the main town is choked by Honda motorbikes, but the fields are still heavily populated by subsistence farmers reliant on the rains to feed their crops. A recently resurfaced road heading south from the town is not yet ready to take traffic, but provides a welcome promenade for children walking home from school.

This is the home constituency of Kamal Nath, India's commerce minister, who this week hosted a meeting in Delhi—attended by his opposite numbers from America, the European Union and Brazil—to try to salvage the Doha round of trade talks. He has won seven elections in the Chhindwara district since 1980 (his wife won another in his stead, after a financial scandal removed him from the race). His district's bad roads do not inconvenience him—he campaigns by helicopter—but the plight of poor farmers, in Chhindwara and elsewhere, provides his favourite justification for India's timidity in the Doha talks.

America's trade negotiators arrived in Delhi arguing that they cannot ask their farmers to accept bigger cuts in state handouts unless they can also offer them better opportunities to sell their crops overseas. But the World Trade Organisation's poorer members, led by India, are reluctant to cut tariffs much on a category of “special products”. This is supposed to be limited to staple goods—such as rice, wheat, onions and poultry—on which the poor depend for their nourishment and vulnerable farmers depend for their livelihood. Countries like Indonesia and the Philippines would probably settle for shielding a handful of such products from the full force of a tariff cut. India, on the other hand, has a wish list of about 80, which reportedly includes even whiskey, a staple form of nourishment for India's urban elite.

It appears to be this deadlock, more than any other, that prompted Susan Schwab, America's trade representative, to lower expectations for the Delhi talks, describing them merely as a stocktaking exercise, before she returned to the original purpose of her trip, a long-scheduled meeting of America and India's bilateral Trade Policy Forum. Her EU counterpart, Peter Mandelson, on the other hand, has described the talks as “timely and important”. As *The Economist* went to press it was still too soon to say which description was more apt. But unless the four parties, which have been privately talking to one another since January, cook up a compromise in Delhi or soon after, the rest of the WTO's 150-strong membership will lose patience with them.

Since the Doha round was launched in November 2001, it has sailed past innumerable deadlines. But the only thing worse than a lapsed schedule is no timetable at all. This explains the desultory pace of negotiations since it became clear some months ago that a deal would not be ready before the end-June expiry of President George Bush's “fast-track” negotiating powers, which allow him to sign an agreement without fear of congressional amendment. Indeed, fast-track now depends on Doha, not the other way around. Mr Bush, who faces a hostile Congress, must pick his moment to battle for a renewal of his trade-negotiating authority. He will not enter the fray until his trade representative has given him something worth fighting for.

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Student loans

Another subprime scandal

Apr 12th 2007 | NEW YORK
From The Economist print edition

The wrong way to become a lender of choice

SERVING borrowers with patchy credit histories has never been more perilous. America's “subprime” mortgage providers have been hounded by congressional committees and face regulatory clampdowns. Now the $85 billion-a-year student-loan industry is joining them in the dock. Its accuser-in-chief is New York's attorney-general, Andrew Cuomo, who, following in the footsteps of his bank-bashing predecessor, Eliot Spitzer, claims to have unearthed a latticework of suspicious links between lenders, university officials and a government department.

The focus of the investigation is the “preferred lender” lists that financial-aid officials compile to help students choose loan providers. These lists are supposed to be based on merit, but some lenders appear to have secured a place on them by paying kickbacks in the form of shares, free travel, debt write-offs and phoney fees.

More than 100 higher-education colleges and several lenders have received subpoenas or requests for information. A senior official from the Department of Education, who oversaw the industry, and financial-aid officers from Columbia University, the University of Texas, the University of Southern California and Johns Hopkins University, have all been suspended pending the outcome of the probe.

According to Mr Cuomo's office, Student Loan Xpress, a well known lender, paid the Johns Hopkins official $65,000 in “consulting fees” and tuition-fee reimbursements for her own studies, possibly in return for a place on the preferred-lender list. The company, which was bought in 2005 by CIT, a financial conglomerate, has placed its chief executive and two other senior managers on leave. In a settlement this week, Sallie Mae, the largest private student lender, agreed to adopt a code of conduct drawn up by Mr Cuomo's people and to pay $2m into a fund to educate students about loans.

Pressure on the industry was building even before the latest probe. A government review in 2003 identified “bargaining practices” between colleges and lenders for preferred-loan status (though it found no specific wrongdoing).

But the strongest attacks have come from politicians. Soon after regaining control of Congress in November, Democrats took aim at student lenders, particularly those that make private loans, which are neither subsidised nor guaranteed by the state and charge market rates that can top 17%. Edward Kennedy, who chairs the Senate's education committee, has urged Congress to “take the money changers out of the temple.”

Government-backed loans have also been affected. The House of Representatives recently voted to cut the interest rate on subsidised student loans by half, to 3.4%, over five years. (The Senate and the White House have to support this for it to become law.) Even Republicans, usually supportive of private lenders, are now turning on them. President George Bush's budget, in February, proposed big subsidy cuts for those lending through government-backed programmes. This sent the shares of Sallie Mae into a funk from which they are yet to recover.

The pressure could lead to a shake-up of the business, as smaller providers conclude that the profits on offer no longer match the legislative risks, reckons Meghan Crowe of Fitch, a rating agency. That would benefit the survivors, which could offset slimmer margins with higher loan volumes. Whether it would also be good for students remains to be seen.

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Hyperinflation

Our mutual friend

Apr 12th 2007
From The Economist print edition

A clever trick for valuing the diminishing Zimbabwe dollar

Reuters

Who knows how much they cost him?

HOW much does one American dollar cost in Zimbabwe? The answer, according to its central bank, is 250 Zimbabwe dollars (Z$), the official exchange rate since last August. If this rate were an accurate reflection of the Zim dollar's worth back then (which is doubtful), it is almost impossible to believe that it is valid today. Annual inflation in Zimbabwe was more than 1,700% in February and since then statisticians appear to have lost count of rising prices. On April 11th the government indefinitely postponed release of March figures. What is clear is that a true exchange rate would have to fall sharply to reflect such a huge loss of purchasing power.

In fact dollars are changing hands for far more than the official rate. This week, one London-based company specialising in money transfers to Zimbabwe posted on the internet a tariff of Z$40,000 to the British pound (Z$20,250 to the greenback).

But without a reliable currency benchmark, it is hard to set accurate prices or to value assets. WM/Reuters, a supplier of financial market data, is offering an ingenious solution. It now provides a daily notional exchange rate based on the relative price of shares in Old Mutual, an insurance company, in the London and Harare stockmarkets.

The bulk of Old Mutual's shares are traded in Britain and South Africa, but it has smaller listings in Sweden, Namibia, Malawi and Zimbabwe, where the company also has half a million policyholders. Since each share's claim on the assets and earnings of Old Mutual is the same, the ratio of its Zimbabwean and British stock prices is a good proxy for the true Z$/sterling exchange rate. A similar trick is used to calculate a notional exchange rate for the Venezuelan bolivar, fixed by government since 2003. In this case, the proxy is the relative price of shares in CANTV, a Venezuelan telecom company, quoted in Caracas and New York.

Surrogate exchange rates have their problems too. CANTV is set to be renationalised, which will scupper the bolivar benchmark. And the Old Mutual implied rate to the American dollar, at Z$19,634 early this month, may overstate the weakness of Zimbabwe's currency. The Harare shares offer a rare opportunity for domestic investors to diversify into foreign earnings and that should mean they trade at a premium to London shares. Still, while it is not perfect, the proxy rate is at least in touch with reality. Which is more than can be said for Zimbabwe's monetary authorities.

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Economics focus

Making less with more

Apr 12th 2007
From The Economist print edition

America's productivity growth has slowed. Does that matter?

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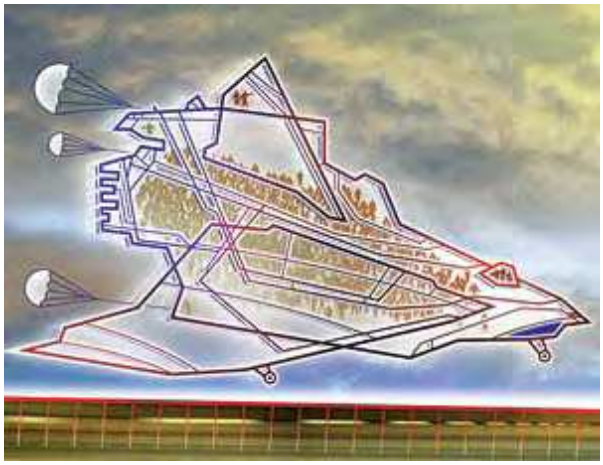

THE good news about America's economy is that jobs are plentiful despite slower growth and the housing blues. Some 180,000 new jobs were created in March and the unemployment rate fell to 4.4%, three-tenths of a percentage point lower than a year ago. With employment and wage growth strong, consumers are unlikely to stop spending and throw the economy into recession.

That is not all cause for celebration, however. The drop in the jobless rate at the same time as the economy is slowing implies that the growth in productivity—the amount workers produce in an hour—is waning. If this proves to be a permanent shift, slower productivity growth bodes ill for inflation and living standards.

Few associate America with limping productivity. Central to its success over the past decade has been its “productivity miracle”, the sudden acceleration in workers' efficiency in 1995. After advancing at a measly 1.5% per year for more than two decades, productivity growth soared to an average of 2.5% a year in the late 1990s and over 3% a year between 2002 and 2004.

This spurt set America apart from other rich countries. But between mid-2004 and the end of 2006, the growth in business output per hour outside agriculture, the most common gauge of worker efficiency, slowed to an annual rate of just 1.5%, on average. Judging by the recent jobs figures, its growth in the first few months of 2007 may be lower still.

Deciding how worrying this is depends on what lies behind the sluggishness. Productivity growth has two components: a long-term trend (set by the quality of the workforce, the pace of capital investment and the speed of innovation) and more volatile short-term fluctuations driven by the business cycle. Early in an expansion, for instance, productivity takes off temporarily as firms squeeze their existing staff harder before hiring new workers. As an economy slows, it tails off, because firms are loth to sack workers immediately.

This time, temporary factors are almost certainly playing the biggest role. Not only has the business cycle reached the point at which productivity growth usually slows, it also has several characteristics that may have exacerbated temporary productivity swings. One is the housing bust. Much of the recent weakness in output growth is thanks to the fall in building activity. Yet employment in construction and other housing-related industries has barely budged. It is hard to isolate workers' productivity in residential housing, but Jan Hatzius of Goldman Sachs estimates that it was 13% lower at the end of 2006 than a year earlier, whereas in the rest of the economy (outside farming) productivity rose by a healthy 2.8%. His analysis spells trouble for the economy's short-term health: once builders stop hoarding workers, the

unemployment rate will rise. But there would be scant need to worry about a broad slip in productivity.

Unusually savage company cost-cutting early in this cycle is another reason why recent productivity swings have been so extreme. Robert Gordon of Northwestern University has long argued that much of the improvement in productivity after 2001 was a one-off event as firms tightened their belts after the bursting of the stockmarket bubble. In a new paper* Stephen Oliner, Daniel Sichel and Kevin Stiroh, all of the Federal Reserve, provide more evidence of this. They show that industries which saw the sharpest drop in profits between the late 1990s and 2001 also saw the largest gains in worker productivity after 2001, probably because they were the most reluctant to hire workers. Today's productivity dip may be the mirror image of that, as job growth catches up with output.

An odd business cycle makes it hard to gauge what has happened to America's underlying rate of productivity growth. So too do shifts in the sources of productivity growth. In the late 1990s workers' efficiency rose thanks both to rapid investment, particularly in information technology (IT), and to innovation, again mainly in IT. Hence the conventional view that America's productivity miracle was based on its ability to harness the power of computers.

Time to upgrade the PC

After 2001, however, productivity gains had less to do with investment or information technology directly. Messrs Oliner, Sichel and Stiroh show that productivity growth was spread more broadly across industries and was partly the result of the reallocation of resources between firms.

Is this good or bad news? Optimists reckon the dispersion makes sense. Just as the efficiency-enhancing effect of steam power or electricity took years to seep through the broader economy, so the IT revolution is now changing business processes, and boosting productivity, throughout the economy. But worrywarts fret that the ingredients of the 1990s productivity boom are missing. Capital spending has been sluggish and is now falling. By some measures the pace of innovation in IT has slowed. John Fernald of the San Francisco Fed points out that the rate at which computer and software prices are falling relative to other overall prices—a crude gauge of IT innovation—has slowed from 8.75% a year in the late 1990s to 6%.

For the moment, the consensus among academic experts seems to be that America's trend rate of productivity growth is below the blistering pace of 2002-04, perhaps slightly lower than in the late 1990s, but well above the 1.5% average of the previous two decades. Messrs Oliner, Sichel and Stiroh, for instance, reckon trend productivity growth is around 2.25%. But no one is very sure. And if unemployment continues to fall while the economy remains weak, the more nervous the productivity gurus will become.

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*"Explaining a Productive Decade". Forthcoming from the Brookings Institution.

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Global warming

A new tree line

Apr 12th 2007
From The Economist print edition

A climate model suggests that chopping down the Earth's trees would help fight global warming

EyePress News

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TREES are good. Good enough to hug. Trees have a nifty biochemical strategy called photosynthesis that enables them to take carbon dioxide in through their leaves, and swap that nasty gas for oxygen, a nice one. They use the carbon thus sequestered to make molecules like cellulose, and thus more tree.

That is why some rich people who love to burn things containing carbon, such as petrol and aircraft fuel, have recently started paying others to plant trees on their behalf. Burning adds oxygen to carbon, making carbon dioxide. And carbon dioxide makes the world warmer. A warmer world will mean higher sea levels. So if people burn things without offsetting the carbon dioxide thus produced, their holidays in the Maldive islands will disappear, along with the islands themselves.

This chattering-class environmental picture is not necessarily wrong, but it does include many assumptions. One of them, that planting trees will make the world cooler than it would otherwise be, is the subject of a newly published study by Govindasamy Bala, of the Lawrence Livermore National Laboratory, in California, and his colleagues. Dr Bala has found, rather counter-intuitively, that removing all of the world's trees might actually cool the planet down. Conversely, adding trees everywhere might warm it up.

Clearcut cooling

The reason for this is that trees affect the world's temperature by means other than the carbon they sequester. For instance forests, being generally green and bristly things, remain quite a dark shade even after a blizzard. They are certainly darker than grasslands smothered in snow, and thus they can absorb more of the sun's heat than vegetation which might otherwise cover the same stretch of land. That warms things up.

Transpiration—the process by which plants suck up groundwater and evaporate it into the atmosphere—is another and opposite matter. Woodlands are usually better than other ecosystems at getting water vapour into the air. In warm places this tends to make things cloudier, and those clouds, in turn, reflect the sun's heat back into space. That cools things down.

Dr Bala and his colleagues took such effects into account using a computer model called the Integrated Climate and Carbon Model. Unlike most climate-change models, which calculate how the Earth should absorb and radiate heat in response to a list of greenhouse-gas concentrations, this one has many subsections that represent how the carbon cycle (photosynthesis and its consequences) works, and how it influences the climate. Thus, Dr Bala's model can be told to replace all the world's forests with shrubby grasslands, and left alone to work out how such a change would alter greenhouse-gas concentrations and how that, in turn, would influence the temperature in different places.

When Dr Bala ordered global clearcutting, the model calculated that the atmosphere's carbon-dioxide levels would roughly double by 2100. This is a much greater increase than happens in a business-as-usual simulation, but it would, paradoxically, make for a colder planet. That is because brighter high latitudes would reflect more sunlight in winter, cooling the local environment by as much as 6°C. The tropics would warm up, since they would be less cloudy, but not by enough to produce a net global heat gain. Overall, Dr Bala's model suggests that complete deforestation would cause an additional 1.3°C temperature rise compared with business as usual, because of the higher carbon-dioxide levels that would result. However, the additional reflectivity of the planet would cause 1.6°C of cooling. A treeless world would thus, as he reports in the *Proceedings of the National Academy of Sciences,* be 0.3°C cooler than otherwise.

No one, of course, would consider chopping down the world's forests to keep the planet cool. But having made their point, Dr Bala and his colleagues then went on to look at the nuances of forest growth and loss at different latitudes.

In Russia and Canada, cutting trees down led mostly to local cooling. The carbon dioxide this released into the atmosphere, though, warmed the world all over. Around the equator, by contrast, warming acted locally (as well as globally), so a tropical country would experience warming that it, itself, created by cutting down trees.

Whether that will be enough to entice those countries to prefer rainforests to ranches is another matter. One thing that might persuade them would be if rich people with a fondness for burning things started paying them to do so. Carbon-offset outfits should take note of Dr Bala's paper. Planting trees in convenient places such as Europe and North America may actually be counterproductive. Instead, in an environmental two-for-one, it is the rainforests that need bolstering.

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Conservation

Raining bats and logs

Apr 12th 2007
From The Economist print edition

How to replant a rainforest cheaply

SINCE the dawn of agriculture, man's most enduring relationship with forests has been to cut them down, thus taking timber and liberating land in one fell swoop. But not all cleared forest is suitable for farming—and that is particularly so when the forest in question is in the tropics. Daniel Nepstad, a forest ecologist at the Woods Hole Research Centre in Falmouth, Massachusetts, estimates that about a third of cleared tropical rainforest is quickly abandoned, having been left in a condition from which it would take decades to recover if nature were to take its course unaided. Such land is, literally, of no use to man or beast. Indeed, it is worse, for natural forest promotes cloud formation and local rainfall, and thus helps nearby farmers. The clouds themselves may even keep the Earth cooler than it would otherwise be (see article). Cleared land, by contrast, promotes drought. Replanting it with trees by hand, however, would be ridiculously expensive.

Sandra Mikich and Gledson Bianconi of Embrapa, a Brazilian government agricultural research institute, hope to overcome this problem by employing the services of arboriculturists who do not need to be paid—the local bat population. They are luring fruit-eating bats out of their woodland homes and getting them to dump the undigested seeds of their most recent meals in areas where rainforests once stood.

The lures are pieces of foam rubber carved into the shape of peppers (a food favoured by a species called the great fruit-eating bat). These lures are surrounded by nets and placed in open fields next to a protected forest in southern Brazil. Some of the rubber peppers are smothered with pepper oil while others are injected with distilled water and used as controls.

Bats flock to the scented lures and are collected by the researchers when they get themselves tangled in the nets. The team identifies each bat and then places it in a cotton bag for two hours to collect its faeces. After that, it is released. Almost half of the captured bats defecate seeds during their brief incarceration, with defecation rates ranging from just a few seeds to as many as a hundred. This suggests that bats might indeed be recruited as unpaid tree-planters, and further experiments are planned.

This is not the first study of the idea of using flying animals to drop seeds into barren areas. A few years ago Karen Holl of the University of California, Santa Cruz, ran a series of similar experiments on the forest birds of Costa Rica.

Her experience was that getting seeds out of the rainforest and on to cleared land is only the first challenge. Getting the seedlings to survive is just as tough. Open country means that the young trees have to compete with aggressive grasses not normally found in the forest, survive the attentions of voracious armies of leaf-cutter ants and deal with exposure to soil and weather conditions that would never be encountered beneath the rainforest canopy.

The answer seems to be to pick your cleared area carefully. For best results you need patches of shrubland in the middle of open fields. Nevertheless, seeding otherwise useless cleared areas by aerial bombardment seems an idea worth pursuing. And at least the seeds arrive along with a ready-made supply of fertiliser.

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Diet and ageing

A dog's life

Apr 12th 2007
From The Economist print edition

Gut bacteria may help to explain why a Spartan diet increases lifespan

IT IS now generally accepted that eating less makes animals live longer. That has been demonstrated in creatures ranging from worms to mammals. Exactly why it should be so remains, however, hotly debated. So Jeremy Nicholson of Imperial College, London, and his colleagues set out to shed some light on the matter. Their results have just been published in the *Journal of Proteome Research*.

One theory of ageing suggests senescence is a result of damage caused to body cells by reactive molecules called free radicals. These molecules are created as a side effect of the release of energy from glucose. If that were true, a lower metabolic rate might slow the process down. The question is: does eating less result in a lower metabolic rate? The answer that Dr Nicholson and his colleagues have come up with is that it does—in dogs, at any rate.

They have come to that conclusion by drawing on data from a 15-year experiment conducted by Purina, an American dog-food company. This experiment involved taking 48 Labrador pups from seven litters just after they were weaned. The dogs were put in pairs, with partners chosen to be siblings of the same sex and similar weaning weight. One pup was allowed to eat as much as it wanted, while its partner received 25% less than the amount the first pup had consumed on the previous day. After three years, the regime was changed so that the first dog of each pair was fed the diet deemed necessary to keep it at a healthy weight while its partner received 25% less than that. The experiment concluded that, on average, the dogs fed less food lived almost two years longer than those fed more—adding dogs to the list of animals that benefit this way.

What enabled Dr Nicholson to build on this result was that Purina's researchers had collected and frozen samples of their dogs' urine at periodic intervals. He and his colleagues were able to use this liquid gold to track the metabolism of each animal throughout its life.

They were particularly interested in two sorts of molecules. The first were derivatives of creatine, a substance that helps to supply energy to muscles. As the dogs grew, the levels of creatine derivatives in their urine increased. Later, as they became elderly, those levels fell. No surprise there. But throughout their lives, the dogs that were fed well had more creatine derivatives in their urine than their calorie-deprived counterparts. This, the researchers suggest, shows that the dieting dogs' muscles were less active and that those animals had thus used less energy than their well-fed confrères. Their overall metabolism, in other words, had been depressed.

Why that might be was hinted at by a second sort of molecule—a group of compounds called aliphatic amines. These chemicals (which, incidentally, give urine its aroma) are made when bacteria munch on a chemical called choline that is part of an animal's food. The reason for Dr Nicholson's interest was that choline is essential for metabolising fat, but dogs cannot synthesise it themselves. Aliphatic amines gave him some indication of how much choline the dogs were able to absorb.

Choline is made available for absorption from the intestine by the activities of the gut bacteria that are liberating it for their own purposes. The amount of aliphatic amines in urine is thus an indirect measure of how much choline is available. As in the case of creatine, this differed between the two groups. Dogs on the restricted diet had lower levels of the amines in their urine than did their well-fed counterparts—implying that less choline was being made available. And if less choline were available, that would limit a dog's ability to metabolise fats, and thus restrict its metabolic rate.

The apparent drop in choline levels was much greater than could be accounted for by a relative lack of food, so Dr Nicholson suspects that the restricted diet was also causing the composition of the dogs' gut flora to change in a way that did not favour choline-munching bugs.

That result, if true, echoes one published a few months ago by Jeffrey Gordon of Washington University, in

St Louis. He showed that putting obese people on a diet changes the mix of their gut bacteria. In that case the consequence is a change in the metabolism of carbohydrates rather than fats. Nor was there a direct link with longevity of the sort implicit in Dr Nicholson's work. Nevertheless, the parallel is intriguing—and yet another incentive to cut down on the calories.

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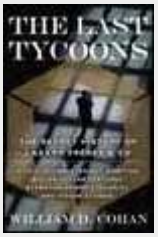
Lazard

Clash of the titans

Apr 12th 2007
From The Economist print edition

The lives and battles of the great men who ran a great bank

The Last Tycoons: The Secret History of Lazard Frères and Co—A Tale of Unrestrained Ambition, Billion-Dollar Fortunes, Byzantine Power Struggles, and Hidden Scandal
By William D. Cohan



Doubleday; 742 pages; $29.95

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AFP

THE story of Lazard, an international investment bank that for decades was one of the best of its breed, is the tale of the bankers who ran it. While Lazard's competitors went public, swelling into financial behemoths peddling loans, brokerage and other services, Lazard chose for many years to remain small and secretive. It concentrated on providing corporate advice to the rich and powerful: a business model that relied not on its balance sheet but on the brains and wiles of the men toiling away in its famously ratty offices.

And what men they were. In “The Last Tycoons”, William Cohan, an erstwhile Lazard banker and former journalist, focuses on the “great men” who shaped the bank (which for a time was partly owned by Pearson, *The Economist*'s largest shareholder). He trots through the first 100 years, from Lazard's start in 1848 as a dry-goods store in New Orleans to its evolution into a loosely connected network of banks in

London, Paris and New York, in two quick chapters. He then dives into the bank's larger-than-life personalities.

There is André Meyer, a brilliant, domineering and ambitious banker, nicknamed “Zeus” by his peers, who took over Lazard's New York office during the second world war and forged it into a powerhouse of corporate advisory services. Much of this success was due to Felix Rohatyn, Mr Meyer's protégé and, like him, a Jewish refugee from Nazi Europe.

The pages dedicated to Mr Rohatyn, the grand architect of many of the bank's most important corporate deals in the second half of the 20th century, could fill their own book. Mr Cohan traces his life from his hair-raising escape from France in 1940, with gold coins tucked inside tubes of toothpaste, to his return to France decades later as America's ambassador after losing a power struggle at Lazard.

Then there is the “elfin, cigar-chomping” and dictatorial Michel David-Weill, the last descendant of the founding families of Lazard to run the bank. Mr David-Weill ruled over Lazard during its best years as well as its steady unravelling in the late 1990s as it increasingly lost out to bigger, better financed and diversified competitors. Finally there is Bruce Wasserstein, the pudgy, unkempt banking genius who was wooed to Lazard by Mr David-Weill and who, over the latter's objections, brought Lazard public in 2005 at a valuation of almost $2 billion (and is shown celebrating with his colleagues above). He thus brought an era to an end.

Mr Cohan's thoroughness—he interviewed over 100 current and former bankers and assorted bigwigs—unearths a trove of colourful titbits, many quite racy. They include various extramarital affairs, the sexual harassment of Lazard's comely female bankers, descriptions of lavish estates and art collections, and the tawdry murder of Edouard Stern, once considered heir-apparent to his father-in-law, Mr David-Weill. Mr Stern was found on the floor of his Geneva flat clothed in a flesh-coloured latex suit with four bullet holes in his head just before Lazard went public.

More illuminating are Mr Cohan's descriptions of the scheming, politicking and general dysfunction that was Lazard—a place where internal calls were left unreturned and partners often were not on speaking terms. Mr Cohan writes at length about the succession of bankers who tried and failed to run the bank because Mr David-Weill refused to be upstaged. “Objectively, Michel is the landowner and everyone else is a tenant farmer. They get rich but they're still farmers,” notes a Lazard banker quoted in the book.

Mr Cohan describes with gusto the power struggle between Mr Rohatyn and Steven Rattner, a star banker who now runs the successful Quadrangle Group, and the way that Mr Wasserstein wrested control of the bank from Mr David-Weill. At the time Lazard was bleeding money but going public saved it: the bank's share price has doubled since 2005.

The book also contains some minor revelations. One such was the near sale of an embattled Lazard to Lehman Brothers in 2001, a plan that collapsed when Lehman's share price plummeted in the wake of the terrorist attacks on September 11th. Another is news of the relatively tiny amount of money Mr Wasserstein coughed up for an 8% ownership stake in the bank—the second-largest private holding in Lazard after Mr David-Weill's—when he took the top job there. Press reports at the time estimated his investment at around $150m. He actually paid only $30m, which was a sign of Mr David-Weill's desperation to find a leader for the rudderless organisation. In retrospect, Mr David-Weill admits to the book's author, “Probably I did not negotiate with [Mr Wasserstein] enough.”

At almost 700 pages of text, “The Last Tycoons” is a solid read. Mr Cohan's commendable attention to detail sometimes leads him astray. Chunks of the book are devoted to mind-numbing descriptions of complex banking deals. And, at times, his gossip titillates without edifying. Still, for those fascinated by the great clashes of the “great men”—and many Wall Street bankers have already put in their pre-publication Amazon orders—Mr Cohan's account is worth the effort.

The Last Tycoons: The Secret History of Lazard Frères and Co—A Tale of Unrestrained Ambition, Billion-Dollar Fortunes, Byzantine Power Struggles, and Hidden Scandal.
By William D. Cohan.
Doubleday; 742 pages; $29.95

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Congress of Vienna

The world's first summit

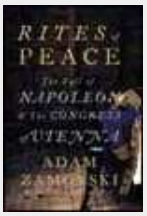
Apr 12th 2007
From The Economist print edition

BIDDING a tearful farewell to veterans of his Old Guard in the palace courtyard at Fontainebleau, Napoleon departed for exile in Elba on April 20th 1814. He left behind a continent ravaged by 25 years of war. Adam Zamoyski, whose previous book, "1812", told the tale of the French emperor's disastrous Russian campaign, now turns his attention to the victors' efforts to reconstruct Europe after his defeat.

His book is old-fashioned, impressively detailed diplomatic history; it deals with the fate of nations and dynasties and the doings of emperors, kings and princes. The author keeps up a strong narrative drive, guiding the reader through the tortuously involved negotiations of the Congress. He lays bare the horse-trading that decided the fate of millions of people and the attempts to grapple with the problems posed by Germany, Poland and Italy, none of which, in the long term, were successfully resolved.

But the Congress of Vienna was not solely about reconstructing Europe; it was also a nine-month-long extravaganza of balls, banquets and amorous escapades. Indeed, as Mr Zamoyski says, its most striking aspect was the "continuous interplay between the serious and the frivolous"; the "rattling of sabres and talk of blood mingled with the strains of the waltz and court gossip." This provides light relief from the graft of realpolitik. The antics of Wilhelmina, Duchess of Sagan, and Princess Catherine Bagration, *grandes horizontales* both, whose favours were sought—and in most cases enjoyed—by practically all the Congress's principal participants, are especially diverting but by no means unique.

Rites of Peace: The Fall of Napoleon and the Congress of Vienna
By Adam Zamoyski



HarperCollins; 656 pages; £25. To be published in America by HarperCollins in July

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As befits its subject, "Rites of Peace" has a notably European outlook. Far from describing it all from an Anglocentric point of view, Mr Zamoyski has the British appear as somewhat detached from the proceedings. Socially, they struck their continental allies as decidedly unsophisticated. The dress sense of both sexes was a particular cause for comment, a shortcoming charitably ascribed to the separation from the continent imposed by a quarter-century of war. Nor did the bibulous eccentricities of Charles Stewart, one of Britain's representatives at the Congress, do anything to allay this impression. He was once spotted riding drunk through Vienna, his horse's head plumed with lily of the valley.

The reputation of the Congress has ebbed and flowed since 1815. For a long while it was "a byword for injustice, incompetence and...disreputable practice and intrigue." But by the middle of the 20th century it had come to be seen as having forged a consensus in the conduct of European affairs that endured until the cataclysm of 1914. Mr Zamoyski disputes this view of the Congress's achievements, espoused in particular by Henry Kissinger, a former American secretary of state. Instead, he concludes that the principals "decided to reorganise and run Europe by accord between themselves, without reference to the minor powers." It was an attempt, he argues, to reverse the changes wrought by Napoleon, to reimpose the *ancien régime* by force.

For Friedrich von Gentz, the worldly Austrian who served as secretary to the Congress, it raised hopes of "a general reform of the political system of Europe, of a guarantee of eternal peace, even of the return of a golden age." These hopes were not fulfilled. Yet for all the Congress's failings, it did represent "a watershed in the affairs of the world", giving birth to the notion that international crises were best dealt with by gatherings of ministers and diplomats. Summiteering is still alive and well today.

Rites of Peace: The Fall of Napoleon and the Congress of Vienna.
By Adam Zamoyski.
HarperCollins; 656 pages; £25. To be published in America by HarperCollins in July

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Iraqi women

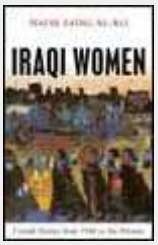
Mixed messages

Apr 12th 2007
From The Economist print edition

FOR some, it was a golden age in Iraq's history: those oil-boom years in the 1970s and early 1980s when women in Iraq combined jobs and children with greater ease than many non-superwomen in the West. Rather than relying on migrant labour like other Arab oil states, Iraq tapped its own unused resource—women—and tempted them to work with generous maternity benefits, free child care and transport to and from school and workplace. Peasant women were taught to read and write. Yet these were also the years when Saddam Hussein was committing some of his worst atrocities against Iraq's Kurds and Shias, men and women.

Nadje Sadig Al-Ali, who has always lived outside Iraq (her father emigrated before she was born), is alive to the contradictions in her tale: her own uncle was executed after a mock trial in 1980. She has collected the thoughts, memories and experiences of more than 100 women who, at one time or another, have joined Iraq's huge diaspora in America, Britain and Jordan. (Well over 4m of Iraq's estimated 24m people have left to live abroad.)

Iraqi Women: Untold Stories from 1948 to the Present
By Nadje Sadig Al-Ali



Zed Books; 292 pages; £14.99. To be published in America by Zed Books in June

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Though she used to visit her father's family in Baghdad quite often, her last trip was in 1997. This, together with the fact that most of her interviewees have been out of Iraq for quite a time, means that her account of the most recent events is largely from second-hand sources, though she does talk to women who still live in Iraq but are taking a brief respite in Amman. She is also aware that nearly all her interviewees are middle-class and urban, which leaves a big question-mark over the rural and urban poor.

But the pattern she draws of the way that educated women's lives have changed and rechanged since Iraq's 1958 revolution is fascinating. The brief “golden age” turned to dross during the deprivations and deaths of the 1980s war with Iran, followed by 13 years of the most comprehensive sanctions ever imposed. A report by the UN Development Programme in 2000 showed that women's employment, once the highest in the region, fell from 23% before 1991 to 10% in 1997.

The emancipation of women had been central to the Baath Party in its drive to widen the base of its support. In effect, the state had tried to shift patriarchal power away from fathers and husbands and brothers to itself. But when economic times grew harsh, conservative Islamist forces fought back, successfully. Women's dress became the symbol of changing years (though one of Ms Al-Ali's interviewees confesses that the *hijab* was a handy way to hide hair that sanctions had made impossible to dye).

More important, the regime's own priorities changed fundamentally. Social inclusion was dropped: with the militarisation of society during the Iraq-Iran war, women's prime duty shifted to being the stay-at-home producers of more and more loyal citizens.

Times were bad then, much worse now. Like most Iraqis asked the question, Ms Al-Ali's women say that they were happy to see Saddam go but are deeply unhappy at what followed. If they still live in Baghdad, they suffer, as do all, from the unremitting violence, the shortages of clean water and electricity. But, as women, many of them have an additional worry.

Outsiders tend to talk of Iraq's “liberation” and its “women's rights” in a single breath. It is more complicated than that. The country's existing family laws are considered the most progressive in the Middle East. They make polygamy difficult and they protect women's custody rights after divorce. What women like Ms Al-Ali, an activist as well as an academic, now fear (and fight) is that these laws will be seriously revised by Islamist conservatives in the new “liberated” set-up, resulting in a diminution of

what are usually thought of as women's rights.

Iraqi Women: Untold Stories from 1948 to the Present.
By Nadje Sadig Al-Ali.
Zed Books; 292 pages; £14.99. To be published in America by Zed Books in June

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American railways

Big man belittled

Apr 12th 2007
From The Economist print edition

THE most benign of America's robber barons is upstaged yet again. As president of the Pennsylvania Railroad (PRR), then among the country's biggest and richest corporations, Alexander Cassatt in the early 1900s commissioned remarkable engineering and architectural feats. Against great odds, he pushed through the construction of tunnels beneath the Hudson and East rivers to provide the only direct rail route from New England to the south. He also oversaw the building of New York's Penn Station, a masterpiece in Roman classical style.

Yet Cassatt's reputation has been increasingly overshadowed since then by the rising fame of his sister, Mary. She, as an artist in Paris in the 1870s, was asked by Edgar Degas to join his circle. Her standing, and the value of her paintings, has risen so high that Alexander is often described, when recalled at all, as Mary's brother.

Now, in Jill Jonnes's history of his two great projects, he is again eclipsed—this time by Stanford White, a partner in McKim, Mead and White, the architectural firm that designed Penn Station. Mr White led a deplorably colourful life. Not content with the clichéd spectacle of a naked young woman jumping out of a dish at a “Pie Girl Dinner”, he hired two sets of strippers to serve the wine: brunettes the red and blondes the white. When he was shot dead by a jealous husband, the first reaction of his closest friend and business partner, Charles McKim, was to rush to destroy his collection of pornographic photographs before the police arrived.

Ms Jonnes could not in good conscience leave White out of her story but his presence means she has to struggle to give due attention to Cassatt and his achievements. She almost pulls it off as she details, with the kind of precision attained only by hard research, how the PRR president summoned up the will, and somehow found the money, to get his jobs done.

Costs soared and men died in countless numbers as silt, quicksands, geysers and other natural hazards delayed construction work beneath the two rivers. Property-owners demanded outrageous prices for the flophouses, whorehouses and tenements that PRR had to acquire to build its railway station in the Satan's Circus quarter of New York. Politicians were nearly as great an obstacle. The crooked ones in New York City demanded bribes and favours. The reformists in Teddy Roosevelt's administration in Washington were just as unhelpful. They distrusted the monopoly power of the railways and were also appalled by their safety record. By Ms Jonnes's count, in the single year of 1897 nearly 1,700 railway workers were killed at work and another 27,700 injured.

Cassatt eventually prevailed but his achievements have gone. His Penn Station was demolished in 1963 to make way for “a mangy low-ceilinged affair little better than a bus depot”. Five years later PRR merged with its old rival, New York Central Railroad, in a vain attempt to avoid bankruptcy. Ms Jonnes's wish is that plans for a new station to replace the 1960s eyesore will produce a terminus as beautiful as the original. Some hope.

Conquering Gotham: A Gilded Age Epic—The Construction of Penn Station and its Tunnels.
By Jill Jonnes.
Viking; 368 pages; $27.95

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By Jill Jonnes

Viking; 368 pages; $27.95

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Redwood trees

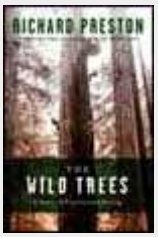
Ancient giants

Apr 12th 2007
From The Economist print edition

HIDDEN in the damp rainforest valleys of northern California are the world's tallest trees. Coast redwoods (*Sequoia sempervirens*) can rise more than 35 storeys above the ground, reaching heights of up to 380 feet (116m). The trunks of redwood “titans” (the largest redwoods in terms of how much wood they contain) can measure 30 feet in diameter. And although no one knows for certain, botanists suspect that some of these “blue whales of the plant kingdom” may be between 2,000 and 3,000 years old—roughly the same age as the Parthenon in Athens.

In “The Wild Trees” (a “wild tree” is one that has never been climbed) Richard Preston, the author of several bestsellers, tells the story of the botanists and naturalists who are committed to preserving the remaining fragment of what was once a 2m-acre (810,000 hectare) redwood forest. His book revolves around three main characters: Steve Sillett, now a professor of redwood-forest ecology at Humboldt State University, who pioneered the “skywalking” method of tree climbing; Marie Antoine, a Canadian botanist, who married Mr Sillett in a lofty arboreal ceremony; and Michael Taylor, an amateur naturalist, who in August 2006 realised his life's ambition when he found the world's tallest tree, a redwood called Hyperion that is currently 379.1 feet tall.

The Wild Trees: A Story of Passion and Daring
By Richard Preston



Random House; 294 pages; $25.95. To be published in Britain by Allen Lane in August

Buy it at
Amazon.com
Amazon.co.uk

Mr Preston's elegant narrative avoids scientific jargon but reveals the passion that scientists have for the ecosystem of the redwood canopy: a “vertical Eden” teeming with life, like “coral reefs in the air”. Here, hundreds of feet up, the redwood's massive limbs are fused into flying buttresses and carved by forest fires into blackened chambers called “fire caves”.

Thick layers of canopy soil (aerial dirt that has accumulated over the centuries) nurture an array of plant and animal life: lichens (186 species have been found in the redwood canopy so far), hanging gardens of ferns, thickets of huckleberry bushes, flowering rhododendrons, red tree voles, salamanders, bees and beetles. Still largely undiscovered, the forest canopies of the earth are believed to hold roughly 40-50% of all species.

Mr Preston is clearly in love with his redwoods, even learning to “skywalk” so that he could climb some of them himself. With his hands-on approach, he brings to life the mystery and majesty of these giant wonders of the botanical world.

The Wild Trees: A Story of Passion and Daring.
By Richard Preston.
Random House; 294 pages; $25.95. To be published in Britain by Allen Lane in August

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Modern dance

Exploring the unknown

Apr 12th 2007
From The Economist print edition

Sylvie Guillem, a great classical ballerina, turns to new adventures

AT AN age when most ballerinas have hung up their pointe shoes, French-born Sylvie Guillem, now 42, is confounding expectations. She has embraced modern dance and is thrilling audiences all over the world in edgy pieces that more hidebound colleagues might shun.

A precociously brilliant star at the Paris Opéra, Ms Guillem defected to the Royal Ballet in London's Covent Garden in 1989. There, throughout the 1990s, she danced many classic roles: Giselle, Nikiya in "La Bayadère", Odette/Odile in "Swan Lake". But she had long felt, or so she confided in a recent interview, that there was something else waiting for her. "I was always interested in modern dance and I had always wanted to do it. I respect the classical repertoire, of course, for the perfection it might touch, but it can close your mind."

Ms Guillem had shot to fame at the Opéra under Rudolf Nureyev. The great Russian dancer-choreographer promoted her to *étoile* just before she turned 20: something nobody in the history of Paris ballet had achieved before. Five years later her flight to London, a bid, she says, for artistic self-determination, was treated as a national scandal in France.

London has been Ms Guillem's home ever since. She can be stormy and there have been angry clashes, such as the famous one in the early 1990s with the late Sir Kenneth MacMillan, one of the Royal Ballet's legendary figures. But for nearly 25 years her elegance and suppleness have fascinated the public and choreographers alike. Great dance-makers such as Mats Ek, William Forsythe and Maurice Béjart have created pieces for her. Though she was not initially trained as a dancer—her first love was gymnastics—she had a head start with, in the words of one London critic, "the flukey perfection of her body". That, coupled with high intelligence and a fierce independence of spirit, has put her in a class of her own.

In 2006 Ms Guillem was made an associate artist at north London's dance home, Sadler's Wells. This was in recognition of her work there with two contemporary dancer-choreographers, Russell Maliphant and Akram Khan. Each has a distinct style. Mr Maliphant's ballet-based improvisations have yoga-like athleticism; Mr Khan's are inspired by the vigorous, foot-and-bell *kathak* tradition of India. Both moulded their choreography to help Ms Guillem shine with a new energy.

With both choreographers, she says, there was no preconceived plan: everything came step by step, after much conversation and debate. In Mr Maliphant's "Push", created in 2005, she dances solo in two works: the first a fluid eight minutes in which, barefoot and dressed in light cotton top and trousers, she exhibits her poised lyricism; the second an electrifying piece in which, in a still cube of light, her limbs appear to shoot in all directions.

Then, last year, in an even more unconventional move, she joined Mr Khan in a show called "Sacred Monsters". Mr Khan wanted to present choreography that explored the performers' roots. In his own case this meant his Asian background; in Ms Guillem's, something of her personality—her likes and dislikes, what "makes me laugh and what I love".

The result, which is being performed at Sadler's Wells this month and travels to California in May, is an hour-long miscellany of dancing and talking by the two performers. In the final 20 minutes they meet in an astonishing duet that allows their discrete virtues to flower: his expressive lightness, her remarkable sinuousness. Ms Guillem is still, without doubt, one of the dance world's most uncompromisingly adventurous artists.

“Sacred Monsters” is at Sadler's Wells from April 17th-22nd. It then travels to UCLA and Berkeley, California, in May. “Push” is in Venice and Naples in July, then at Snape Maltings, England in November.

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María Julia Hernández

Apr 12th 2007
From The Economist print edition

AFP

María Julia Hernández, fighter for human rights, died on March 30th, aged 68

WHEN forensic teams from Argentina dug in 1992 into the earth at El Mozote, in the mountains of eastern El Salvador, they first came upon a reddish rubble, mixed up with the roots of thorn-plants and weeds. A little deeper they uncovered small, thin skulls, some of them blackened by fire. Underneath these were bundles of what seemed to be brown rags: the blood-soaked cotton dresses, trousers and socks of what had once been children, killed more than a decade before. The pockets of some still held their lucky plastic toys.

The forensic work at this, the most dreadful killing-field of modern Latin America, was memorably reported by Mark Danner in the *New Yorker*. But it might never have been carried out, and the massacre of 794 people, overwhelmingly civilians, in December 1981 might never have been forced to the world's attention, if María Julia Hernández had not been on the case. She was in charge of the Socorro Jurídico, later the Tutela Legal, which during El Salvador's murderous civil war of 1980-92 kept track of human-rights abuses for the archdiocese of San Salvador. She was therefore the person to whom Rufina Amaya Márquez first told her story.

Rufina had been the sole survivor of the massacre. When the troops of the elite Atlacatl battalion of the Salvadoran army had come to the village to flush out leftist rebels, she had been locked up with the other women. She had seen her husband beheaded with a machete; her baby daughter had been torn from her breast. But as the women were led away Rufina managed to hide beside a crab-apple tree, and the screaming of the others distracted the soldiers from seeing that she had gone. When night fell she crawled away into the maguey plants, her skirts knotted up so as not to hamper her, and dug a little hole into which she could press her face to weep without being heard.

Miss Hernández took all this down. She was a homely, sympathetic sort, who in her old-fashioned print dresses looked much like a priest's housekeeper; but she had been a professor of law at the University of Central America in San Salvador, and would fix those who tried to deceive her with a stony, intellectual stare. Since 1978, as El Salvador slid into disorder, she had been compiling for the archdiocese a book of the dead. These were the corpses left by right-wing death squads in the city streets most nights, their faces dissolved by battery acid and their backs or chests scored with the tags of their killers. Her colleagues would take photographs, and relatives of the missing would come to her office to leaf through the portfolio in the hope, or fear, of finding them. But El Mozote was an atrocity beyond any of this.

For years, with a lawyer's thoroughness and steely determination, Miss Hernández amassed the evidence. The government would not help; it denied that anything had happened, and dismissed Tutela Legal as a guerrilla front. The Reagan administration, intent on stamping out communist infection, agreed

that Miss Hernández was a trouble-maker. She was undeterred. In 1989 six Jesuits were shot dead at her old university; Tutela Legal did the first investigation, and found that the army had ordered it. In 1991 her office published the first investigation into El Mozote, including the names of all the dead.

The signing of peace accords the next year ended the civil war, set up a Truth Commission and led to the dig at the site of the massacre. Miss Hernández had the names of those responsible; but in 1993 the new government declared an amnesty for all of them. She kept going, campaigning to overturn the amnesty and to bring the killings before the Inter-American Court of Justice. On her death the case had been reopened and, with her help, evidence was slowly being gathered again. She was also publicising corruption and brutality in El Salvador's police force.

The heart entire

Her life was full of risks, cheerfully faced. Each day, settling to her work in a room as bare as a nun's cell, she began with a prayer: “Well, God, will I see you today, or will you leave me a bit longer, fighting?” Papers carrying death-threats were often pushed through the door. She drew strength from her dearest friend, Oscar Romero, who in 1977 had become archbishop of San Salvador and had set up the human-rights office. Like Christ calling the disciples, as she liked to remember it, he had summoned her from the university, “and I didn't really know how to [follow him], but I said yes.” Once she went searching for the archbishop, out into the countryside, and found him saying mass for the *campesinos* under a tree. From him she learned to love and defend the poor; and when he too was murdered by a death squad, at the altar, in 1980, she felt bound to continue the work he had begun.

She died relatively young, from a heart attack, in the same month that Romero had been killed and on the very day of his burial. Salvadorans found a fascinating symmetry in that. Miss Hernández had liked to show visitors where he was buried and to tell the story that, though he had been shot in the chest, his heart had been undamaged. She was sure it was still whole under the earth, evidence of his continuing power to encourage her, just as the reddish soil at El Mozote had preserved, in blood and bones, the truth.

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Overview

Apr 12th 2007
From The Economist print edition

America's unemployment rate fell to 4.4% in March. Payroll employment increased by a faster-than-expected 180,000 during the month. Even the construction industry hired 56,000 more workers, despite the weakness of the housing market.

More evidence that Europe's economies are reviving: **Germany's** industrial production surged by 7.6% in the year to February; **Swedish** output jumped by 6.8% over the same period; and **France's** production perked up by 2.6%. In contrast, **Britain's** industrial output fell in February, leaving it only 0.3% higher than a year ago.

Japan's current-account surplus widened to $174 billion in the 12 months to February; **Germany's** jumped to $153 billion.

China's trade surplus narrowed sharply in March, to $6.9 billion. But the surplus for the first three months of 2007, at $46.6 billion, was still twice as big as in the same period of 2006.

Singapore's GDP growth slowed to 6% in the year to the first quarter, from growth of 10.1% a year ago. **Malaysia's** industrial output unexpectedly fell by 0.2% in the year to February, possibly reflecting weaker American demand.

Russia's GDP growth jumped to 7.7% in the year to the fourth quarter of 2006. Its 12-month rate of consumer-price inflation eased to 7.1% in March, down from 10.7% a year earlier.

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Output, prices and jobs

Apr 12th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+3.1 Q4	+2.5	+2.3	+2.7	+3.4 Feb	+2.4 Feb	+3.6	+2.1	4.4 Mar
Japan	+2.3 Q4	+5.5	+2.3	+2.3	+2.6 Feb	–0.2 Feb	–0.1	+0.1	4.0 Feb
China	+10.7 Q4	na	+9.8	+9.7	+12.6 Feb	+2.7 Feb	+0.9	+2.7	9.8 2006
Britain	+3.0 Q4	+2.7	+2.6	+2.5	+0.3 Feb	+2.8 Feb**	+2.0	+2.1	5.5 Jan††
Canada	+2.3 Q4	+1.4	+2.4	+2.7	–2.3 Jan	+2.0 Feb	+2.2	+1.7	6.1 Mar
Euro area	+3.3 Q4	+3.6	+2.3	+2.1	+3.7 Jan	+1.9 Mar	+2.2	+1.8	7.3 Feb
Austria	+3.3 Q4	+3.3	+2.8	+2.6	+8.5 Jan	+1.7 Feb	+1.2	+1.6	4.4 Mar
Belgium	+2.9 Q4	+2.4	+2.3	+2.2	+4.4 Jan	+1.8 Mar	+1.7	+1.8	11.5 Feb‡‡
France	+2.5 Q4	+2.9	+2.1	+2.1	+2.6 Feb	+1.0 Feb	+1.9	+1.4	8.4 Feb
Germany	+3.7 Q4	+3.5	+2.2	+2.1	+7.6 Feb	+1.9 Mar	+1.8	+1.7	9.2 Mar
Greece	+4.3 Q4	na	+3.2§	+3.1§	+2.3 Feb	+2.6 Mar	+3.3	+2.8§	8.8 Q4
Italy	+2.8 Q4	+4.7	+1.9	+1.6	–0.7 Feb	+1.7 Mar	+2.1	+1.8	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.6	+2.4	+4.6 Jan	+1.8 Mar	+1.0	+1.4	5.0 Feb††
Spain	+4.0 Q4	+4.8	+3.4	+2.8	+3.5 Feb	+2.4 Feb	+4.0	+2.5	8.6 Feb
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+15.4 Feb	+1.9 Mar	+2.8	+2.4	7.3 Mar
Denmark	+2.9 Q4	+0.6	+2.3	+2.3	+1.1 Jan	+2.0 Mar	+1.9	+1.8	3.9 Feb
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.7 Feb	+9.0 Mar	+2.3	+6.6	7.4 Feb††
Norway	+2.7 Q4	+2.0	+2.8§	+2.5§	–2.4 Jan	+1.1 Mar	+2.4	+1.6§	2.7 Feb††
Poland	+6.4 Q4	na	+5.4	+5.0	+12.9 Feb	+1.9 Feb	+0.7	+2.0	14.9 Feb‡‡
Russia	+7.7 Q4	nil	+7.0	+6.3	+8.7 Feb	+7.1 Mar	+10.6	+7.3	7.3 Feb‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.0	+6.8 Feb	+1.9 Mar	+0.7	+1.6	4.8 Feb‡‡
Switzerland	+2.2 Q4	+1.8	+2.0	+2.0	+8.9 Q4	+0.2 Mar	+1.0	+0.7	3.0 Mar‡‡
Turkey	+5.2 Q4	na	+4.3	+5.3	+7.1 Feb	+10.9 Mar	+8.2	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+2.9	+3.2	+0.9 Q3	+3.3 Q4	+2.8	+2.7	4.5 Mar
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+0.8 Feb	+1.2	+2.5	4.3 Feb††
India	+8.6 Q4	na	+8.0	+7.8	+11.0 Feb	+7.6 Feb	+4.9	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	+23.1 Jan	+6.5 Mar	+15.7	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	–0.2 Feb	+3.1 Feb	+3.2	+2.5	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.0§	+6.8 Sep	+7.4 Feb	+8.0	+6.8§	na
Singapore	+6.0 Q1	+7.2	+5.4	+5.4	+0.1 Feb	+0.6 Feb	+1.2	+1.4	2.6 Q4
South Korea	+4.0 Q4	+3.4	+4.4	+4.7	–0.4 Feb	+2.2 Mar	+2.0	+2.3	3.2 Mar
Taiwan	+4.0 Q4	na	+4.3	+4.6	–2.8 Feb	+0.8 Mar	+0.4	+1.4	3.9 Feb
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+5.5 Feb	+2.0 Mar	+5.7	+2.9	1.6 Jan
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+2.4 Feb	+9.1 Mar	+11.1	+9.8	8.7 Q4‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+3.0 Feb	+3.0 Mar	+5.3	+3.7	9.9 Feb‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+4.6 Feb	+2.6 Mar	+4.0	+2.6	6.4 Feb††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+13.7 Jan	+5.8 Mar	+4.1	+4.2	13.8 Jan‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	+1.4 Jan	+4.2 Mar	+3.4	+3.8	4.0 Feb‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+6.7 Jan	+18.5 Mar	+12.1	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.6 Feb	+4.0	+9.9	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+6.9 Jan	–0.8 Feb	+3.1	+1.4	7.7 Q4
Saudi Arabia	+4.2 2006§	na	+3.9§	+5.0§	na	+3.0 Jan	+1.5	+2.5§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+7.1 Feb	+5.7 Feb	+3.9	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.4§	+8.4 Feb	+5.7 Mar	+4.0	+4.3§	4.7 Feb
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–1.3 Feb	+2.2 Feb	+0.9	+1.9§	7.0 Feb
Iceland	+2.5 Q4	+7.8	+0.4§	+2.6§	na	+5.9 Mar	+4.5	+4.9§	1.3 Feb‡‡
Ireland	+5.0 Q4	+0.1	+5.4§	+3.6§	+8.9 Jan	+4.8 Feb	+3.3	+3.4§	4.3 Feb
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+2.0 Feb	+8.5 Mar	+6.5	+6.0§	6.1 Jan
Lithuania	+6.9 Q4	+7.4	+6.5§	+6.4§	na	+4.6 Mar	+3.1	+1.8§	6.2 Feb
Luxembourg	+5.4 Q3	+4.1	+4.6§	+4.1§	+2.3 Dec	+2.0 Feb	+3.0	+3.0§	4.8 Feb‡‡
New Zealand	+2.9 Q4	+5.0	+2.6§	+3.1§	–1.4 Q3	+2.6 Q4	+3.1	+3.0§	3.7 Q4
Peru	+9.2 Jan	na	+6.1	+5.5	+11.5 Jan	+0.2 Mar	+2.5	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	+2.0 Jan	+2.2 Mar	+7.6	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.6§	+2.1§	+4.5 Feb	+2.4 Feb	+2.9	+2.2	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+7.0§	+5.4§	+15.5 Feb	+2.7 Mar	+4.5	+2.5	11.0 Jan
Slovenia	+5.5 Q4	na	+4.0§	+3.8§	+9.3 Feb	+2.3 Mar	+1.9	+2.3	8.7 Jan‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.6% in Feb. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Apr 12th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Apr 3rd	Apr 10th*	% change on one month	% change on one year
Dollar index				
All items	194.8	201.3	+5.6	+23.9
Food	154.2	157.3	−0.1	+16.4
Industrials				
All	247.4	258.1	+10.5	+30.5
Nfa†	158.1	158.5	+3.3	+6.5
Metals	296.1	312.4	+12.7	+39.2
Sterling index				
All items	149.3	154.7	+3.4	+9.7
Euro index				
All items	134.7	138.5	+3.7	+11.8
Gold				
$ per oz	666.40	675.50	+4.1	+12.7
West Texas Intermediate				
$ per barrel	64.50	61.77	+6.6	−10.3

*Provisional †Non-food agriculturals.

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Slovakia

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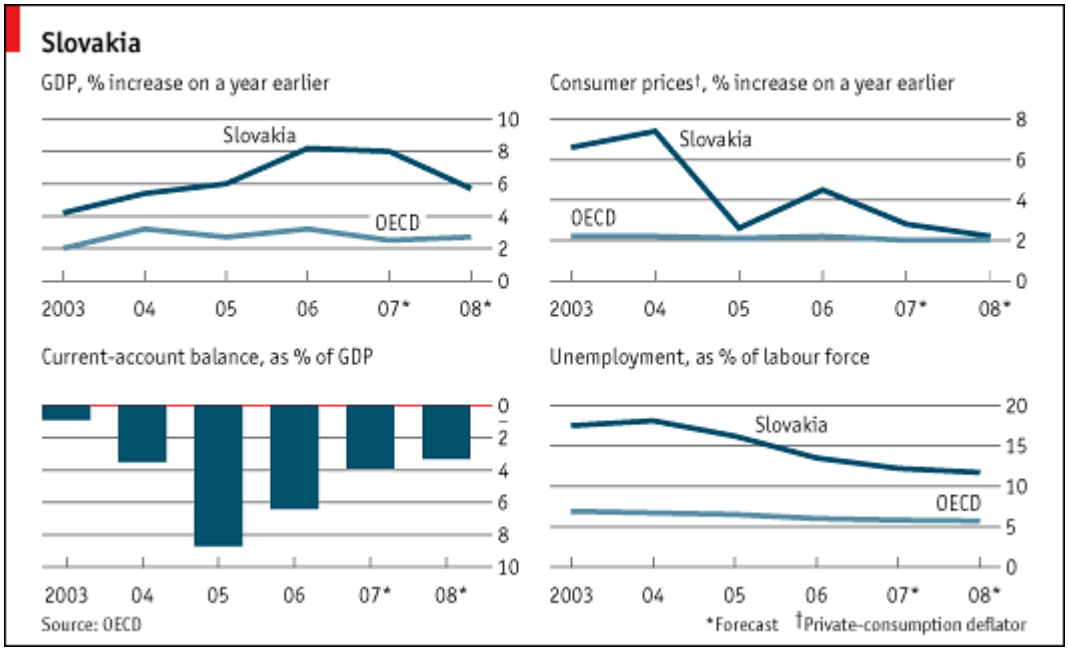

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Trade, exchange rates, budget balances and interest rates

Apr 12th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Apr 11th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−829.1 Jan	−856.7 Q4	−6.1	–	–	−1.6	5.23	4.73
Japan	+84.0 Feb	+173.9 Feb	+4.1	119	118	−4.7	0.57	1.64
China	+200.9 Mar	+160.8 2005	+7.6	7.73	8.01	−1.6	2.89	3.33
Britain	−154.2 Jan	−80.1 Q4	−3.0	0.51	0.57	−2.7	5.55	5.01
Canada	+47.3 Jan	+21.4 Q4	+1.0	1.14	1.15	0.8	4.17	4.21
Euro area	−7.0 Jan	−17.3 Jan	−0.1	0.74	0.83	−1.0	3.96	na
Austria	+0.4 Jan	+11.6 Q3	+1.3	0.74	0.83	−1.1	3.96	4.19
Belgium	+17.0 Jan	+7.8 Dec	+2.7	0.74	0.83	0.1	4.01	4.20
France	−34.4 Feb	−32.4 Jan	−1.3	0.74	0.83	−2.5	3.96	4.18
Germany	+213.0 Feb	+153.5 Feb	+4.7	0.74	0.83	−1.4	3.96	4.14
Greece	−45.3 Jan	−30.5 Jan	−7.8‡	0.74	0.83	−2.6	3.96	4.33
Italy	−26.3 Jan	−46.9 Jan	−1.9	0.74	0.83	−2.6	3.96	4.34
Netherlands	+42.5 Jan	+59.7 Q4	+8.3	0.74	0.83	0.6	3.96	4.17
Spain	−114.6 Jan	−107.6 Dec	−8.8	0.74	0.83	1.7	3.96	4.19
Czech Republic	+2.4 Feb	−6.1 Q4	−3.3	20.8	23.6	−4.2	2.58	3.90
Denmark	+6.3 Feb	+5.8 Feb	+2.7	5.55	6.16	3.1	4.14	4.16
Hungary	−2.4 Feb	−6.5 Q4	−5.0	182	219	−6.7	7.88	6.75
Norway	+55.4 Feb	+56.1 Q4	+15.3‡	6.02	6.48	18.7	4.51	4.65
Poland	−5.6 Jan	−7.7 Jan	−2.5	2.85	3.24	−2.6	4.29	5.24
Russia	+134.1 Feb	+95.6 Q4	+6.0	25.9	27.7	6.0	10.50	6.23
Sweden	+20.3 Feb	+28.4 Q4	+6.6	6.90	7.71	2.9	3.22	4.01
Switzerland	+10.3 Feb	+106.1 Q4	+15.3	1.22	1.30	1.2	2.31	2.75
Turkey	−53.0 Feb	−32.4 Feb	−7.0	1.37	1.34	−1.6	19.02	18.99
Australia	−9.9 Feb	−40.9 Q4	−5.2	1.21	1.37	1.3	6.50	5.88
Hong Kong	−16.9 Feb	+20.2 Q4	+9.4	7.81	7.76	1.9	4.24	4.09
India	−56.1 Feb	−10.0 Q4	−2.3	42.9	45.2	−4.3	7.91	8.26
Indonesia	+40.1 Feb	+9.6 Q4	+1.2	9,085	9,000	−1.1	8.56	6.30§
Malaysia	+29.3 Feb	+22.2 Q3	+12.9	3.45	3.67	−3.3	3.64	5.27§
Pakistan	−13.5 Feb	−6.5 Q4	−5.4‡	60.8	60.0	−4.6	9.94	6.67§
Singapore	+34.6 Feb	+36.3 Q4	+23.5	1.52	1.61	0.3	2.81	2.70
South Korea	+17.7 Mar	+6.8 Feb	+0.3	932	960	0.4	4.94	5.01
Taiwan	+14.1 Mar	+25.2 Q4	+5.9	33.1	32.5	−2.3	1.86	2.10
Thailand	+3.4 Jan	+4.6 Jan	+1.9	35.0	38.1	−1.2	4.25	4.02
Argentina	+12.0 Feb	+8.1 Q4	+2.4	3.09	3.08	1.0	9.63	na
Brazil	+45.5 Mar	+14.1 Feb	+0.7	2.03	2.14	−2.2	12.68	6.16§
Chile	+23.8 Mar	+5.3 Q4	+0.8	533	513	4.3	5.04	5.26§
Colombia	−0.5 Jan	−2.9 Q4	−2.3	2,156	2,332	−1.5	7.44	6.08§
Mexico	−9.0 Feb	−1.5 Q4	−1.2	11.0	11.0	−0.4	7.00	7.53
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,165	2,511	−3.8	10.12	6.55§
Egypt	−12.6 Q4	+2.7 Q4	+1.3	5.70	5.74	−8.0	8.29	5.29§
Israel	−7.7 Feb	+6.8 Q4	+3.4	4.11	4.60	−2.8	4.02	4.67
Saudi Arabia	+165.7 2006	+90.0 2005	+18.2‡	3.75	3.75	13.2	5.04	na
South Africa	−9.5 Feb	−16.3 Q4	−5.9	7.14	6.12	0.5	9.30	7.72
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.5 Jan	−2.4 Jan	−13.5‡	11.6	12.9	1.3	3.98	na
Finland	+11.6 Jan	+12.8 Jan	+5.6‡	0.74	0.83	2.3	3.93	4.18
Iceland	−1.9 Mar	−4.4 Q4	−16.2‡	66.2	75.9	2.1	13.72	na
Ireland	+35.3 Jan	−7.2 Q4	−4.3‡	0.74	0.83	0.8	3.96	4.15
Latvia	−5.3 Jan	−4.6 Jan	−19.5‡	0.52	0.57	−1.2	8.00	na
Lithuania	−5.7 Feb	−3.5 Jan	−10.3‡	2.57	2.85	−0.5	4.20	na
Luxembourg	−5.2 Jan	+4.4 Q4	na	0.74	0.83	−0.8	3.96	na
New Zealand	−3.8 Feb	+6.2 Q4	−9.1‡	1.37	1.62	3.5	6.75	5.94
Peru	+8.7 Jan	+2.5 Q4	+1.0	3.18	3.34	0.1	4.50	na
Philippines	−3.7 Jan	+5.0 Dec	+3.2	48.0	51.3	−1.0	5.56	na
Portugal	−23.3 Dec	−18.1 Jan	−7.7‡	0.74	0.83	−3.7	3.96	4.27
Slovakia	−2.4 Feb	−4.6 Dec	−5.5‡	24.8	30.9	−3.0	3.51	4.17
Slovenia	−2.1 Feb	−1.3 Jan	−1.6‡	0.74	0.83	−1.2	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Apr 12th 2007
From The Economist print edition

Markets

	Index Apr 11th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,484.6	−0.4	+0.2	+0.2
United States (S&P 500)	1,438.9	nil	+1.5	+1.5
United States (NAScomp)	2,459.3	nil	+1.8	+1.8
Japan (Nikkei 225)	17,670.1	+0.7	+2.6	+2.4
Japan (Topix)	1,739.0	+0.5	+3.4	+3.3
China (SSEA)	3,674.4	+6.2	+30.5	+31.9
China (SSEB, $ terms)	188.0	+2.8	+43.0	+44.5
Britain (FTSE 100)	6,413.3	+0.8	+3.1	+4.2
Canada (S&P TSX)	13,401.0	−0.4	+3.8	+5.6
Euro area (FTSE Euro 100)	1,349.6	+0.7	+5.6	+7.6
Euro area (DJ STOXX 50)	4,293.2	+0.7	+4.2	+6.2
Austria (ATX)	4,733.1	+0.8	+6.0	+8.1
Belgium (Bel 20)	4,587.7	+0.6	+4.5	+6.5
France (CAC 40)	5,751.9	+0.2	+3.8	+5.8
Germany (DAX)*	7,152.8	+1.1	+8.4	+10.5
Greece (Athex Comp)	4,783.7	+1.9	+8.9	+10.9
Italy (S&P/MIB)	42,805.0	+0.9	+3.3	+5.3
Netherlands (AEX)	522.1	+0.9	+5.4	+7.4
Spain (Madrid SE)	1,662.4	+0.4	+6.9	+9.0
Czech Republic (PX)	1,784.8	+2.3	+12.3	+12.6
Denmark (OMXCB)	452.7	+0.3	+6.7	+8.7
Hungary (BUX)	24,383.2	+2.1	−1.9	+2.6
Norway (OSEAX)	527.5	+0.4	+5.0	+8.5
Poland (WIG)	59,206.4	+2.1	+17.4	+19.8
Russia (RTS, $ terms)	1,984.4	+2.8	+1.6	+3.3
Sweden (Aff.Gen)	399.2	+0.8	+9.3	+8.4
Switzerland (SMI)	9,136.1	+0.9	+4.0	+4.2
Turkey (ISE)	46,105.8	+3.2	+17.9	+21.7
Australia (All Ord.)	6,136.1	+0.9	+8.7	+13.7
Hong Kong (Hang Seng)	20,449.4	+1.2	+2.4	+2.0
India (BSE)	13,183.2	+3.1	−4.4	−1.3
Indonesia (JSX)	1,931.0	+0.5	+7.0	+5.9
Malaysia (KLSE)	1,306.2	+2.7	+19.2	+21.8
Pakistan (KSE)	11,895.0	+4.2	+18.5	+18.6
Singapore (STI)	3,420.6	+2.6	+14.6	+15.8
South Korea (KOSPI)	1,513.4	+2.0	+5.5	+5.2
Taiwan (TWI)	8,084.5	+1.0	+3.3	+1.7
Thailand (SET)	695.1	+0.2	+2.2	+5.6
Argentina (MERV)	2,164.5	+1.7	+3.5	+2.7
Brazil (BVSP)	46,939.0	+0.8	+5.5	+10.9
Chile (IGPA)	13,737.6	+1.3	+11.0	+10.9
Colombia (IGBC)	10,774.1	−1.2	−3.5	+0.3
Mexico (IPC)	29,278.8	−0.3	+10.7	+9.1
Venezuela (IBC)	48,277.1	+0.6	−7.6	−2.4
Egypt (Hermes)	65,543.4	+2.8	+6.9	+7.2
Israel (TA-100)	1,030.7	+0.7	+11.8	+14.8
Saudi Arabia (Tadawul)	7,789.8	+1.6	−1.8	−1.8
South Africa (JSE AS)	27,638.6	+0.4	+10.9	+9.6
Europe (FTSEurofirst 300)	1,547.2	+0.5	+4.3	+6.3
World, dev'd (MSCI)	1,544.2	+0.4	+4.1	+4.1
Emerging markets (MSCI)	963.6	+1.7	+5.6	+5.6
World, all (MSCI)	383.3	+0.5	+4.2	+4.2
World bonds (Citigroup)	665.9	−0.1	+1.2	+1.2
EMBI+ (JPMorgan)	418.4	nil	+2.7	+2.7
Hedge funds (HFRX)	1,310.1	+0.5	+2.7	+2.7
Volatility, US (VIX)	13.5	13.2	11.6	(levels)
CDSs, Eur (iTRAXX)†	20.1	−0.3	−6.1	−4.3
CDSs, N Am (CDX)†	32.5	−3.0	+10.6	+10.6
Carbon trading (EU ETS) €	0.79	−7.1	−87.5	−87.2

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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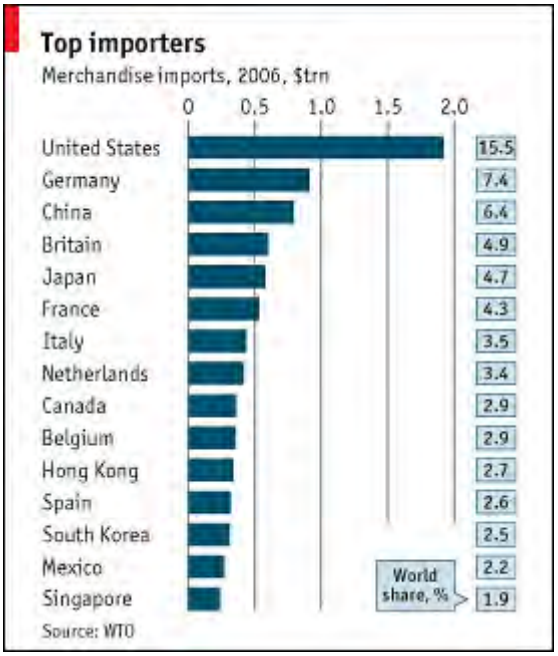
Top importers

Apr 12th 2007
From The Economist print edition

America remained by far the world's leading importer of goods in 2006, with more than twice the share of Germany, ranked second, in the global total. Third-placed China's imports grew by 20% last year, the fastest pace of any of the top 15 importers; its exports grew by 27%. Hong Kong and Singapore owe their position in the league to imports for re-export, which accounted for $300 billion of Hong Kong's total of $336 billion and for $129 billion of Singapore's $239 billion. According to economists at the World Trade Organisation, global merchandise trade grew by 8% last year, the fastest rate since 2000. A slowdown in global GDP growth to around 3% in 2007 would still mean a rise in trade of around 6%.



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